REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

# 1983-84 ANNUAL REPORT

JULY 1984

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STATE OF CALIFORNIA

# Office of the Auditor General

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Thomas W. Hayes
Auditor General

July 31, 1984

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

I submit to the Legislature my Annual Report for 1983-84. The report presents an overview of the work completed by the Office of the Auditor General from July 1, 1983, to June 30, 1984, and illustrates the scope of audits undertaken during those 12 months.

Respectfully submitted,

THOMAS W. HAYES
Auditor General

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# INTRODUCTION

The Auditor General is the only independent auditing organization in the State with authority to review programs of state executive agencies and other agencies that receive state money. By conducting financial, investigative, and performance audits and by performing special studies, the Auditor General provides the Legislature with objective information about the State's financial condition and the performance of the State's many agencies and programs. The Auditor General thus aids the Legislature in ensuring that state government is accountable to the citizens of California. In fulfilling this audit function, the Auditor General issued more than 50 reports during the past fiscal year. This annual report to the Legislature summarizes work performed by the Auditor General from July 1, 1983, to June 30, 1984.

A major project of the Auditor General was the financial and compliance audit of the State's combined financial statements for fiscal year 1982-83. This audit, covering revenues of more than $45 billion, was the largest financial audit of a governmental entity ever conducted. It involved a review of 31 state agencies. On the basis of the audit, the Auditor General issued a qualified opinion on the State's General Purpose Financial Statements and issued letters relating to weaknesses in internal controls found in 26 agencies or their affiliates. As a result of this audit, California is the first state to be recognized by the federal government for compliance with the Office of Management and Budget's "Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments" (Circular A-102, Attachment P).

The Auditor General received and investigated 40 allegations of misconduct, fraud, or waste in state government since July 1, 1983. Most of these allegations were received over the toll-free telephone hotline that the Auditor General operates 24 hours a day. The bulk of

the allegations concerned improper personnel practices and abuse of state resources. The Auditor General substantiated occurrences of improper governmental activity in over 40 percent of the allegations investigated. In February 1984, the Auditor General issued a public report of investigations conducted from July 1, 1983, through December 31, 1983.

The Auditor General issued 40 audit reports dealing with the efficiency and effectiveness of state programs during the past fiscal year. The audits concerned programs operated by 33 different agencies and dealt with topics as varied as the management of the State's hazardous waste program by the Department of Health Services, provision of radio communications services to state agencies by the Department of General Services, and administration of federal grants by the Office of Economic Opportunity. The Auditor General also reviewed policies of the Office of Statewide Health Planning and the California Post-Secondary Education Commission; these policies affect the number of physicians in California.

## BENEFITS DERIVED FROM AUDITS BY THE AUDITOR GENERAL

The Auditor General is the only auditing organization in the State that the United States Government and the bond rating community recognize as meeting the nationally accepted audit standards for independence. The Auditor General's annual comprehensive financial and compliance audit of the State's combined financial statements saves millions of dollars in future interest expense by ensuring a continued bond rating from the international bond rating companies. The comprehensive audit also enables the State to remain eligible for the $7 billion of federal grant funds that the State annually receives. Recommendations that the Auditor General made during fiscal year 1983-84 should save the State at least $168 million in the first year after these recommendations are fully implemented. The State will also experience additional savings in future years.

Although not all Auditor General reports yield savings that are easy to measure, the reports make recommendations that result in improved controls, increased effectiveness, and more efficient use of state resources. For example, the State loses million of dollars annually in foregone interest, bad debts, and lost assets because of weaknesses in internal control systems intended to safeguard the State's assets. Common examples of control weaknesses that the Auditor General has identified include inadequate billing and collection activities, inadequate accountability for property and equipment, and inadequate monitoring of expenditures. While the opportunity to recover past losses is limited, the State can prevent many losses in future years by implementing the tighter controls that the Auditor General has recommended.

In addition to recommending changes that save the State's money, the Auditor General also recommended changes in procedures that should enable state agencies to better perform their functions. Table 1 on the following page shows examples of procedural changes that the Auditor General recommended in recent reports.

## TABLE 1

## EXAMPLES OF RECOMMENDATIONS FOR PROCEDURAL CHANGES
## FISCAL YEAR 1983-84

| Report Number | Report Title | Date Issued | Recommendations |
|---|---|---|---|
| 376 | The State of California Should Do More To Reduce and Prevent Contamination of Water Supplies | 03-26-84 | Improving the State Water Resources Control Board's regulation of waste dischargers; the changes would improve water quality in the State. |
| 305 | Pre-Admission Screening Reduces the Cost of Providing Long-Term Care to Elderly Medi-Cal Beneficiaries and Promotes Independent Living | 04-10-84 | Changing Medi-Cal procedures so that the elderly can remain independent and avoid unnecessary placement in nursing homes. |
| 435 | The Workers' Compensation Appeals Board Has Reduced the Length of the Adjudication Process But Does Not Comply With Statutory Mandates | 05-01-84 | Implementing procedures to increase the amount of time judges spend in hearings and increasing supervision of district offices by the Department of Industrial Relations to expedite the adjudication process. |
| 386 | The State Athletic Commission Needs To Improve Its Enforcement of Boxing Safety Laws and Regulations | 05-03-84 | Improving administrative procedures to increase the safety of boxers. |
| 412 | The Office of Economic Opportunity Has Not Controlled Public Funds Properly | 06-25-84 | Improving the OEO's fiscal management and its disbursement of and accounting for federal funds to ensure that federal funds are properly used. |

The Auditor General's investigative function also benefits the State in ways not easy to quantify. To implement the Reporting of Improper Governmental Activities Act, effective January 1, 1980, the Auditor General installed a toll-free telephone "hotline" for state employees and private citizens to report actions they deem improper. Since January 1980, the Auditor General has received over 7,500 contacts, resulting in nearly 1,000 allegations. The Auditor General has substantiated over 20 percent of these allegations, resulting in disciplinary or criminal action.

## LEGISLATION GENERATED BY AUDITS

Reports issued by the Auditor General have provided legislators with information useful in framing laws and in performing other legislative functions. Table 2 shows Auditor General reports issued during fiscal year 1983-84 that contributed to specific legislation. Several bills passed by the Legislature during fiscal year 1983-84 were based on Auditor General reports issued before July 1, 1983.

## TABLE 2

## LEGISLATION GENERATED BY AUDITOR GENERAL REPORTS
## FISCAL YEAR 1983-84

| Report Number | Report Title | Bill Number | Subject |
|---|---|---|---|
| 232 | The Office of Economic Opportunity Could Improve Its Administration of the Low Income Home Energy Assistance Block Grant | SB 2301 | Modifies eligibility for low-income energy grants. |
| 275 | The Department of General Services Can Reduce Radio Communication Costs to State Agencies | SB 486 | Centralizes the State's telecommunications policies. |
| 305 | Pre-Admission Screening Reduces the Cost of Providing Long-Term Care to Elderly Medi-Cal Beneficiaries and Promotes Independent Living | AB 2226 | Requires implementation of pre-admission screening in five Medi-Cal field offices. |
| 337 | Courts and Counties Are Not Collecting and Remitting to the State All Revenue for the Victims of Crime Program | AB 1485<br>SB 1085 | Increases the amount of funds available to compensate victims of crime. |
| 385 | The Alameda County Superintendent of Schools Needs an Emergency Loan of $5 Million | AB 247 | Provides a loan of $5.5 million to Alameda County and transfers to school districts the responsibility for transporting handicapped children. |

## TESTIMONY AT LEGISLATIVE HEARINGS

During the fiscal year, the Auditor General provided testimony before committees of the Legislature or the Little Hoover Commission on more than 20 occasions. Table 3 on the following page provides examples of hearings at which the Auditor General provided testimony.

## TABLE 3

## EXAMPLES OF LEGISLATIVE HEARINGS AT WHICH THE AUDITOR GENERAL PROVIDED TESTIMONY FISCAL YEAR 1983-84

| Report Number | Subject of Testimony and Committee | Date of Testimony |
|---|---|---|
| 230 | Recommendations to improve enforcement of child support, AB 1529 - Senate Health and Welfare Committee | 07-19-83 |
| 361 | Recommendations to improve the California Veterans Home Loan Transfer Program - Assembly Select Committee on Veterans Affairs | 11-15-83 |
| 343 | Recommendations to improve the Toxic Waste Superfund program - Little Hoover Commission | 11-30-83 |
| 244 | The cleanup of the Stringfellow Toxic Waste Disposal Site - Assembly Consumer Protection and Toxic Materials Committee | 12-08-83 |
| 343 | Recommendations to improve the State's Hazardous Waste Program - Assembly Ways and Means Committee | 12-14-83 |
| 934 | Pending legislation on pesticides, SB 950 - Senate Finance Committee | 01-19-84 |
| 091/ 219 | Recommendations for improving regulation of utility rates - Assembly Utilities and Commerce Committee and Senate Energy and Public Utilities Committee | 02-06-84 |
| 337 | Potential improvements in the Victims of Crime Program and AB 3052 - Assembly Criminal Law and Public Safety Committee | 04-11-84 |
| 402 | Improvements to the State's Late Payments Act - Assembly Select Committee on Small Business | 04-30-84 |
| 414 | Pending legislation on pesticides - Assembly Ways and Means Committee | 05-29-84 |
| 305 | Improving pre-admission screening of requests to enter nursing homes - Senate Rules Committee | 06-04-84 |

## TECHNOLOGICAL ADVANCES IN GOVERNMENTAL AUDITING

The Auditor General has made great strides during the past fiscal year in applying microcomputer technology in governmental auditing. The Auditor General acquired 25 portable microcomputers that auditors can use at audit sites. Microcomputers enable auditors to produce, quickly and accurately, sophisticated analytical material while the auditors are at the audit site. Auditors can now perform detailed analyses that were not attempted in the past because of the resources and personnel costs required.

The microcomputers allow auditors to transmit data and text by telephone to the Sacramento office from audit sites throughout the State. Consolidation and review of audit results during an audit permit audit managers to monitor the progress of the audit and to determine quickly where additional data are needed to produce a comprehensive audit. Early review and feedback by managers in Sacramento enable auditors to develop high quality reports at reduced costs.

Our experience shows that microcomputer technology improves the efficiency of an auditor by at least ten percent. Our calculations show that the cost of each microcomputer is recovered within one year through more efficient use of audit time and resources. The Auditor General is on the leading edge of technological advances in governmental auditing. During the past year, the Auditor General's staff has made many presentations to and consulted with other governmental organizations on the use of microcomputers.

## EFFICIENCY IN GOVERNMENTAL AUDITING

The Office of the Auditor General manifests the same concerns for efficiency in its own operations that it urges for other state agencies. As a result of the Auditor General's emphasis on audit

efficiency, California has one of the lowest ratios of audit costs to statewide expenditures in the nation. Other states spend, on the average, one dollar in audit costs per $1,700 in statewide expenditures; in contrast, the Auditor General audits $4,600 in statewide expenditures for each dollar of audit costs. Moreover, improvements in audit efficiency enabled the Auditor General to increase substantially the amount of compliance auditing conducted during the past fiscal year with no increase in staff.

Throughout its activities, the Office of the Auditor General continues to stress its independence as well as its availability to legislators in their efforts to ensure accountability, effectiveness, and efficiency in state government. On the following pages, we present summaries of audits and investigations conducted by the Auditor General during fiscal year 1983-84. An Index on page 95 lists the summaries by subject and agency. Reports issued by the Auditor General are available to the public for $2.00 per copy. Contact the Office of the Auditor General, 660 J Street, Suite 300, Sacramento, California 95814. Telephone (916) 445-0255.

## FINANCIAL AUDITS

The major effort of the Financial Audit Division was an audit of the State's General Purpose Financial Statements for fiscal year 1982-83. This audit covered revenues of over $45 billion, making it the largest financial audit of a governmental entity ever conducted. As a result of this audit, we issued exit conference letters on weaknesses in internal controls in 26 state agencies. Exit conference letters identify control weaknesses that cost the State millions of dollars each year. The audit also enables the State to maintain a favored rating by bond rating agencies, resulting in significant savings to the State through lower interest rates on issued bonds. In addition, the federal government recognized California as the first state to comply with the Office of Management and Budget's Circular A-102, Attachment P, which specifies audit procedures as a condition of receiving federal funds.

The Financial Audit Division also reported on the statement of security accountability of the State Treasurer, the evaluation of consulting services contracts by state agencies, the use of state aircraft for executive transportation, the financial position of the State Athletic Commission, the travel claims of the Director of the Department of General Services, and the need for an emergency loan for the Alameda County Superintendent of Schools. Lastly, we completed an audit of the California Student Aid Commission's State Guaranteed Student Loan Program. The Financial Audit Division issued ten audit reports during the fiscal year.

On the following pages, we summarize our audit of the General Purpose Financial Statements and discuss weaknesses in internal controls that we found during our audit. Additionally, we include summaries of other financial audit reports issued during the 12 months.

STATE OF CALIFORNIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 1983

## Summary of Findings

We examined the General Purpose Financial Statements of the State of California as of and for the year ended June 30, 1983. Except for the General Fixed Asset Account Group, as explained in the next paragraph, we conducted our examination in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made our examination so that we could form an opinion on the General Purpose Financial Statements taken as a whole. We did not examine the financial statements of the Pension Trust Funds, which reflect total assets constituting 73 percent of the Fiduciary Funds. We also did not examine the financial statements of certain Enterprise Funds, which reflect total assets and revenues constituting 53 percent and 68 percent, respectively, of the Enterprise Funds. In addition, we did not examine the University of California Funds. The financial statements of the Pension Trust Funds, the Enterprise Funds, and the University of California Funds referred to above were examined by other auditors who furnished their reports to us. Thus, our opinion, insofar as it relates to the amounts included for the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds, is based solely upon the reports of other independent auditors.

The State has not maintained adequate fixed asset records for its governmental fund type property, plant, and equipment. Consequently, the General Fixed Assets Account Group presented in the financial statements was not prepared according to generally accepted accounting principles.

Our opinion, based upon our examination and the reports of other independent auditors, and except for the effect, if any, of the omission of the General Fixed Assets Account Group, stated that the General Purpose Financial Statements present fairly the financial position of the State of California as of June 30, 1983.

## THE STATE OF CALIFORNIA CAN IMPROVE THE CONTROL OF ITS FINANCIAL OPERATIONS

### Summary of Findings

Although the State of California corrected many of the weaknesses in internal controls that we reported last year, the State continues to lose millions of dollars annually in foregone interest, bad debts, and lost assets because of weaknesses in internal controls that are intended to safeguard the State's assets. While the opportunity to recover past losses is limited, many future losses could be prevented through tighter controls at executive agencies.

The Office of the Auditor General made specific recommendations to various executive agencies to help them improve existing internal controls. During our audit of the State's financial statements for fiscal year 1982-83, we found that 26 of the 31 agencies we tested had at least one weakness in internal controls. These 26 agencies process over 81 percent of the dollar volume of General Fund transactions in the State. The weaknesses in these agencies pertained to financial operations, electronic data processing activities, internal audit activities, and compliance with federal regulations governing the administration of federal grants.

We noted weaknesses in the financial operations of 26 of the 31 agencies that we reviewed. Twelve agencies did not adequately control revenue activities. Several agencies had weaknesses in collecting money due the State. Some agencies did not bill for goods or services promptly or did not follow up on delinquent accounts; as a result, some of the State's potential revenues are now uncollectible. Furthermore, the State lost approximately $170,000 in interest. Other weaknesses in revenue activities related to depositing and identifying collections. Several agencies did not deposit collections promptly. In one instance, we estimate that the State lost $15,000 in interest because an agency did not promptly deposit cash receipts. In addition, 16 agencies had weaknesses in expenditure activities. Several of these agencies had inadequate payroll procedures, and thus some employees were not paid appropriately. Employees were also allowed to leave state service before they returned state property and repaid outstanding advances.

Moreover, many agencies did not comply with the reporting requirements established by the Department of Finance. Of particular concern is the agencies' inadequate accountability for fixed assets. The State of California exercises poor control over billions of dollars in such fixed assets as machinery, office equipment, and computers. State agencies could not identify all assets that they had or should have had under their control. For this reason, the State Controller could not report on general fixed assets in the State's financial statements.

Also, in maintaining its accounting records, the State does not fully comply with the generally accepted accounting principles that are recognized throughout the nation. As a consequence, the Office of the Auditor General was required to spend state time and money to convert the State's financial records so that they would be acceptable to the investment community.

Seven state agencies did not control their electronic data processing (EDP) activities adequately. We found that agencies did not adequately separate incompatible duties, did not maintain adequate systems and program documentation to control program changes, and did not adequately control access to hardware, files, and documentation. Failure to control EDP activities adequately can result in unauthorized changes to computer programs and files and in unauthorized transactions.

Fifteen of the 18 internal audit units we reviewed did not comply with all professional standards established by the Institute of Internal Auditors, Inc. Sections 1236 and 10529 of the California Government Code require state agencies having internal audit units to use these standards. The standards embody the goals of internal auditing pertaining to independence, professional proficiency, scope of work to be performed, conduct in the performance of audit work, and management of internal auditing departments. When internal audit units fail to comply with professional standards, external auditors cannot rely on the work that the units perform. As a result, the State's audit costs are increased.

Furthermore, some state agencies were not complying with federal requirements for administering grants and disbursing grant funds. The State did not fully comply with federal regulations in 35 of the 49 grants that we reviewed. In our opinion, none of the conditions of noncompliance that we noted was significant enough to jeopardize continued funding for the State. However, the federal government could require the State to reimburse all funds that the State spent while not complying fully with the grant requirements.

Recommendations

The Department of Finance should monitor state agencies to ensure that agencies correct the weaknesses that we have identified. It should also revise the State Administrative Manual to ensure that state agencies provide sufficient financial information to facilitate the State Controller's preparation of the State's financial statements according to generally accepted accounting principles.

STATE OF CALIFORNIA
STATEMENT OF FEDERAL LAND PAYMENTS
OCTOBER 1, 1981 THROUGH SEPTEMBER 30, 1982

To comply with Public Law 97-258 (Title 31 United States Code, Sections 6901 through 6906), the Governor or the Governor's delegate must submit to the Secretary of the Interior a statement of amounts received by the State and transferred to each unit of local government within the State under certain federal payment laws. These payments compensate for the property taxes that would have been collected on tax-exempt federal land.

From October 1, 1981, through September 30, 1982, the State of California received $72.2 million under federal payment laws. Of this total, the State transferred $23.2 million to qualified units of local government, transferred $45 million to school districts or county school service funds, and retained $4 million. State statutes contain provisions for apportioning and disbursing these monies; the State Controller administers these provisions.

We examined the State of California's Statement of Federal Land Payments covering the period from October 1, 1981, through September 30, 1982. The Statement of Federal Land Payments was prepared on the basis of cash disbursements made by the State of California to counties of the State for distribution to qualified local governmental units under Title 31 United States Code, Section 6901, et seq. Our opinion stated that the Statement of Federal Land Payments for the period from October 1, 1981, through September 30, 1982, presents fairly the payments made by the State of California to counties of the State for distribution to qualified local governmental units under Title 31 United States Code, Section 6901, et seq.

## THE ALAMEDA COUNTY SUPERINTENDENT OF SCHOOLS NEEDS AN EMERGENCY LOAN OF $5 MILLION

### Summary of Findings

The Alameda County Superintendent of Schools (ACSS) needed a loan of approximately $5 million to continue operating its programs for the remainder of fiscal year 1983-84. Unless the ACSS received an outside loan, its bank account would have been $5.0 to $5.5 million overdrawn by June 30, 1984. The ACSS was in this position because of a number of poor management decisions that began in 1981. These decisions involved the ACSS' undertaking a countywide program to transport handicapped students even though it did not have adequate funds and the ACSS' depleting its financial resources to acquire a new office building. The ACSS compounded its problems because it failed to follow its annual operating budgets and because it understated projected expenditures and overstated projected revenues in the fiscal year 1983-84 budget that it submitted to the State Department of Education and the Alameda County Board of Education.

A loan to the ACSS to cover its fiscal year 1983-84 cash deficit would not solve all of its financial difficulties even if the school districts assume responsibility for repaying that loan. We projected that by June 30, 1985, the ACSS would have a $1.6 million fund balance deficit unless it cut expenditures significantly. Furthermore, the ACSS' financial problems will be exacerbated in fiscal year 1984-85 because the ACSS will feel the full effect of the lease payments for its new office building.

### Recommendations

The Legislature should amend Assembly Bill 247 to increase the maximum amount of the loan to the Alameda County Superintendent of Schools to $5.5 million. As a condition of receiving the loan, the ACSS should be directed, among other things, to submit to the State Department of Education detailed annual budgets and monthly reports of operations. In addition, the State Superintendent of Public Instruction should carefully monitor the operations of the ACSS. Finally, the legislation should also direct the Auditor General to review the ACSS' status of operations and report to the Legislature by September of each year until the loan is repaid.

STATE ATHLETIC COMMISSION GENERAL FUND
FINANCIAL AUDIT REPORT
YEAR ENDED JUNE 30, 1983

Summary of Findings

A part of the Department of Consumer Affairs, the State Athletic Commission (commission) regulates boxing, wrestling, kickboxing, and full-contact karate. The commission receives revenues from the following sources: 1) license fees collected from participants in these sports and from those employed in connection with these sports; 2) taxes paid on admissions to boxing, kickboxing, wrestling, and karate shows; 3) taxes on broadcast and television rights; and 4) taxes on admissions to closed-circuit television broadcasts. At the time of our audit, the commission deposited all monies it received in the State's General Fund, and it received appropriations from the General Fund for its operations. Since July 1983, the commission has accounted for its operations in the Athletic Commission Fund, which the Legislature created by amending Section 18632 of the Business and Professions Code.

We examined the General Fund balance sheet of the State Athletic Commission as of June 30, 1983, and the related statement of revenues, expenditures, and changes in the fund balance - clearing account for the year then ended. We examined these in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Our opinion stated that the financial statements present fairly the financial position of the State Athletic Commission's General Fund as of June 30, 1983, and the results of its operations and changes in its fund balance - clearing account for the year then ended, in conformity with generally accepted accounting principles.

## THE STATE HAS NOT EFFECTIVELY MANAGED THE USE OF SOME OF ITS AIRCRAFT FOR EXECUTIVE TRANSPORTATION

### Summary of Findings

We audited the use of state aircraft by the California Department of Forestry (CDF) and the Department of Fish and Game (DFG) during fiscal year 1982-83 and July and August of 1983. Our audit focused on use of the aircraft to transport personnel for administrative purposes ("executive transportation"). We also evaluated new regulations in the State Administrative Manual governing the use of state aircraft and the two departments' compliance with the regulations.

Our audit did not reveal evidence of personal use of state aircraft by either the CDF or the DFG during our audit period. However, we did find some official flights that were lengthened for the personal convenience of passengers at additional cost to the State. We also found that the CDF and the DFG have used their aircraft for executive transportation when other available transportation, such as a state car or commercial air service, would have cost less.

Parts of the new state regulations that were developed to provide guidance in selecting the most economical executive transportation are inadequate. Lack of specificity in the selection criteria has caused differing interpretations and practices in the use of state aircraft by the CDF and the DFG. Furthermore, neither the CDF nor the DFG have fully implemented management control systems required since June 1983 by the State Administrative Manual, and CDF pilots are not providing complete post-flight logs for their flight activity as required by the State Administrative Manual. CDF pilots are also not preparing post-flight logs for flights in rented aircraft.

### Recommendations

To provide consistency and objective application of the new regulations in the State Administrative Manual, the Department of Finance should specifically identify those cities that are served by regular commercial airlines. In addition, the Department of Finance should revise the State Administrative Manual to require that objective measurable direct costs to the State be the predominate factors in determining the most economical method of travel. Finally, agencies should choose the transportation that results in the lowest direct cost to the State.

The California Department of Forestry and the Department of Fish and Game should implement State Administrative Manual requirements to document flight requests and approvals formally. The CDF should revise its flight log form to require pilots to record, in addition to data required on the current form, the time of day flown, overnight stops,

all stops enroute, and names of passengers and their titles and employers, and the reason for the flight. Pilots should also include on the logs a brief explanation of the relationship of the purpose of the flight to the stops, destination, passengers, and time of day flown. Finally, the CDF should require pilots to record all flight activity for all aircraft, regardless of aircraft ownership.

## THE STATE HAS NOT ADEQUATELY MONITORED THE REPORTING AND EVALUATION OF CONSULTING SERVICES CONTRACTS

### Summary of Findings

Chapter 1208, Statutes of 1982, requires the Auditor General to review the State's system for monitoring consulting services contracts for fiscal years 1982-83, 1983-84, and 1984-85. The Department of General Services (department) has overall responsibility for monitoring these contracts during the same period and is to develop and administer a system for monitoring contract evaluation. The California Government Code requires state agencies to complete pre-evaluation forms for proposed consulting services contracts, evaluate their completed consulting services contracts and submit a copy of the post-evaluation to the department within 30 days after completion of the contract, and report their consulting contract activity to five state offices quarterly. The agencies' fourth-quarter reports must describe the agencies' consulting contract activity during the entire fiscal year.

State agencies are not fully complying with the provisions of the new law. We found that many state agencies are not submitting quarterly reports as required. Of the 125 state agencies that had planned to contract for consulting or professional services during fiscal year 1982-83, only 50 agencies filed contract evaluations with the department during the fiscal year; 18 of the 50 agencies did not submit fourth-quarter reports on their consulting contract activity and 9 of the 18 agencies did not submit any quarterly reports during the fiscal year. Only 32 agencies submitted all required reports. In addition, not all reports submitted were complete. We identified 277 contracts that had not been included in any of the agencies' reports. Moreover, agencies are not filing reports on time: 15 of the 32 agencies that submitted fourth-quarter reports were late in submitting the reports. Finally, the fourth-quarter reports of 11 agencies were not complete. As a result of state agencies' failure to complete quarterly reports and to submit the reports promptly, the Legislature is still without complete information regarding the consulting activity of state agencies.

We also found that some state agencies are not complying with requirements for evaluating contracts. Although we found some weaknesses in the pre-evaluation process for consulting services contracts, we did not identify any major problems. Agencies attempted to follow pertinent provisions in the State Administrative Manual. However, agencies did not always comply with the provision requiring filing of post-evaluations within 30 days after completion of the contracts. In our sample of 50 contracts that terminated after January 1, 1983, we found that agencies had not filed post-evaluations for 22 (44 percent) of the contracts as of September 23, 1983. As a result, other agencies that intended to use consulting services were

unable to review evaluations of some consultants who had previously contracted with the State.

The failure of state agencies to comply with the provisions of Chapter 1208, Statutes of 1982, occurred for several reasons. Although the department had informed state agencies of their quarterly reporting responsibilities, none of the five state offices designated to receive the reports was given responsibility for enforcing compliance or providing guidance on reporting requirements. Further, the department did not issue revised contract pre- and post-evaluation forms by January 1, 1983, as required by statute. The department did not issue these revised forms until May 2, 1983, and did not have its post-evaluation monitoring system in place until mid-June 1983.

Recommendations

Contract officers in state agencies should ensure that quarterly reports on consulting contract activity are completed and sent to the appropriate agencies within ten days after the end of the quarter. The Legislature should designate the Department of Finance to enforce agency compliance with Section 14830.4 of the California Government Code. In addition, contract officers in state agencies should ensure that the proper evaluations of consulting services contracts are completed and filed with the Department of General Services' Legal Office within 30 days after contract completion as required by Section 14830 of the California Government Code. Finally, the department's Legal Office should ensure that all state agencies comply with the requirements of Section 14830 of the Government Code.

ANALYSIS OF DIRECTOR OF GENERAL SERVICES' TRAVEL

Summary of Findings

We were requested by the Legislature to audit the travel claims of Mr. William J. Anthony, Director of General Services. Our review covered travel that Mr. Anthony conducted as Director of General Services and as Director of the Division of Law Enforcement of the Department of Justice.

Mr. Anthony traveled 169 times between Los Angeles and Sacramento while employed by the Department of General Services and the Department of Justice. We found seven instances in which Mr. Anthony's travel violated either provisions of the State Administrative Manual or the California Administrative Code. Four of these instances involve his employment at the Department of General Services, and three involve the Department of Justice. The total cost to the State for these violations was $704.60. Of this total, Mr. Anthony refunded $116.00; Department of General Services auditors disallowed this amount in their audit of Mr. Anthony's travel claims. Mr. Anthony also refunded an additional $568.00 because the Department of General Services auditors disallowed certain meals and a portion of the per diem that Mr. Anthony claimed. The auditors concluded that Mr. Anthony could have completed his business and returned to Sacramento earlier than he actually did.

In 14 instances, we could not state unequivocally that Mr. Anthony's travel did not violate the State Administrative Manual or the California Administrative Code. In these cases, there was insufficient information available, or the mileage recorded for the use of a state car appeared higher than necessary for the trips that were reported.

CALIFORNIA STUDENT AID COMMISSION
CALIFORNIA EDUCATIONAL LOAN PROGRAMS
FINANCIAL AUDIT REPORT
YEAR ENDED JUNE 30, 1983

Summary of Findings

The California Student Aid Commission (commission) requested this audit to meet its obligation to provide audited financial statements to lenders participating in the California Educational Loan Programs, which include the State Guaranteed Student Loan Program and the California Loans to Assist Students Program. The commission is responsible for guaranteeing federally reinsured loans issued to students and parents for postsecondary education expenses. The California Educational Loan Programs are supported by federal funds, investment earnings, and insurance premiums paid by student borrowers.

The commission has contracted with the E. D. S. Corporation, a subsidiary of Electronic Data Systems Corporation, to provide administrative support services from January 3, 1983, to February 28, 1986. United Student Aid Funds, Inc., had provided these services through December 1982.

We examined the balance sheets of the California Student Aid Commission's California Educational Loan Programs as of June 30, 1982, and June 30, 1983, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. Our opinion stated that the financial statements present fairly the financial position of the California Student Aid Commission's California Educational Loan Programs at June 30, 1982 and 1983, and the results of their operations and changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

## INVESTIGATIVE AUDITS

Since January 1980, when the Reporting of Improper Governmental Activities Act went into effect, over 7,500 state employees and other people interested in reporting wrongdoing in state government have contacted the Investigative Audit Unit. While many of these contacts did not result in the filing of a complaint, 955 complaints have been filed; 40 of these were filed during the 12 months covered by this summary. On the following pages, we discuss the complaints and provide examples of some of our investigations.

The Investigative Audit Unit receives most allegations of improper governmental activity over the Auditor General's Hotline, which is a toll-free telephone line available throughout the State. (The toll-free number is 800-952-5665.) Some complaints are received by mail and some through personal visits by complainants. Table 1 shows how the Auditor General received the 40 complaints filed from July 1, 1983, to June 30, 1984.

### TABLE 1

### RECEIPT OF COMPLAINTS FILED JULY 1, 1983 TO JUNE 30, 1984

| Method of Receipt | Number | Percent |
|---|---|---|
| Auditor General's Hotline | 31 | 78% |
| Mail | 8 | 20% |
| Personal Visit | 1 | 2% |
| Total | 40 | 100% |

Each complaint filed with the Investigative Audit Unit results in a preliminary investigation to determine if the reported impropriety falls within the Auditor General's jurisdiction and whether there is sufficient evidence of wrongdoing to warrant a formal investigation. If the preliminary investigation reveals proper jurisdiction and sufficient evidence, the Auditor General initiates a formal investigation of the complaint. Table 2 shows the disposition of the 40 complaints that were filed with the Investigative Audit Unit. Our investigations substantiated the occurrence of an improper governmental activity in 11 of the 25 cases that were closed.

**TABLE 2**

**DISPOSITION OF COMPLAINTS**
**JULY 1, 1983 TO JUNE 30, 1984**

| | Number | Percent |
|---|---|---|
| Cases closed after preliminary investigation | 12 | 30% |
| Cases closed after formal investigation | 13 | 32% |
| Investigations in progress | 15 | 38% |
| Total | 40 | 100% |

Allegations of improper governmental activity fall into four major categories: mismanagement, improper personnel practices, abuse of state resources, and misuse of state vehicles. Most of the allegations concerned improper personnel practices and abuse of state resources. In both categories, the Investigative Audit Unit substantiated 40 percent of the allegations that it investigated. Table 3 on the following page shows the types of allegations received since July 1, 1983, and the number that have been substantiated.

## TABLE 3

## TYPES OF ALLEGATIONS RECEIVED AND INVESTIGATED JULY 1, 1983 TO JUNE 30, 1984

| Type | Allegations Received | Allegations Unsubstantiated | Allegations Substantiated | Total | Percent of Allegations Substantiated | Investigations In Progress |
|---|---|---|---|---|---|---|
| | Investigations Closed | | | | | |
| MISMANAGEMENT | | | | | | |
| Poor Administrative Decisions | 2 | 0 | 1 | 1 | 100% | 1 |
| Wasteful Purchases | 0 | 0 | 0 | 0 | 0 | 0 |
| Improper Contracting Procedures | 1 | 0 | 0 | 0 | 0 | 1 |
| Subtotal | 3 | 0 | 1 | 1 | 100% | 2 |
| IMPROPER PERSONNEL PRACTICES | | | | | | |
| Time and Attendance Abuses | 11 | 3 | 3 | 6 | 50% | 5 |
| Failure to follow Personnel Rules | 6 | 5 | 0 | 5 | 0 | 1 |
| Subtotal | 17 | 8 | 3 | 11 | 27% | 6 |
| ABUSE OF STATE RESOURCES | | | | | | |
| False Travel Claims | 1 | 0 | 0 | 0 | 0 | 1 |
| Waste of State Funds | 4 | 2 | 1 | 3 | 33% | 1 |
| Misuse of Employees or Property | 3 | 1 | 0 | 1 | 0 | 2 |
| Miscellaneous | 6 | 1 | 4 | 5 | 80% | 1 |
| Subtotal | 14 | 4 | 5 | 9 | 44% | 15 |
| MISUSE OF STATE VEHICLES | | | | | | |
| Used for Improper Purposes | 6 | 2 | 2 | 4 | 50% | 2 |
| TOTAL | 40 | 14 | 11 | 25 | 44% | 15 |

In the following sections, we describe each of the four types of improper governmental activity and provide examples of some of the complaints that we investigated and substantiated. Each case also shows the action taken by the responsible state agency.

## MISMANAGEMENT

State agencies and employees sometimes fail to meet their responsibilities to manage state programs in the most efficient and effective manner. They may initiate wasteful purchases or fail to follow proper contracting or bid procedures. In other instances, state employees may make poor administrative decisions. These kinds of practices typically result in a misuse or waste of state funds or in a violation of administrative rules or regulations, as indicated in Case A.

### Case A

An agency's Public Affairs Office improperly awarded a $6,000 consulting contract for a design project. In violation of the agency's contracting procedures and provisions of the State Administrative Manual, the office asked three firms to submit proposals and gave no other firms an opportunity to submit a proposal. In addition, the agency did not formally advertise the contract, notice of the contract was not published in the Contracts Register as required by an executive order, and the contract was not forwarded through proper review and approval procedures. The agency awarded the contract on the basis of the contractor's previous experience and ability to meet deadlines.

As a result of the Auditor General's investigation, the agency has developed new procedures for awarding consulting contracts. The contracting officer must review all proposals and monitor the selection procedures. In addition, the contracting officer is reevaluating the classification of commercial services contracts as well as personal services contracts and will work with the State Personnel Board to ensure that the agency understands the proper procedures to be followed for each type of contract.

## IMPROPER PERSONNEL PRACTICES

State agencies and state employees sometimes fail to meet their responsibilities as employer and employee. An employing agency may fail to follow the rules and regulations governing the hiring, promoting, and dismissing of employees. An employee, on the other hand, may not work a full eight-hour day but still receive full pay, or an employee may conduct personal business on state time. Activities such as these typically result in a violation of fair employment practices or in a misuse or waste of state resources. Case B describes an example of improper personnel practices.

### Case B

During working hours, an agency employee performed duties of a union steward. He participated in meetings with union staff members and received telephone calls from other employees about union business. During breaks or lunch hours, he typed union correspondence and copied union material on state equipment.

As a result of the Auditor General's investigation, the agency, through a memorandum to all management staff, reiterated its policy that no employees, including stewards, may use state time, supplies, or equipment to conduct union business. The employee's supervisor discussed this policy with the employee, who indicated a complete understanding of agency policy on union activities.

## ABUSE OF STATE RESOURCES

State agencies and employees sometimes misuse or misappropriate state resources. Such misuse can occur through the filing of false travel claims, the use of state personnel for nongovernmental purposes, or the use of state telephones and postage for personal purposes. Practices of this type typically result in a waste of state funds and sometimes border on fraud and embezzlement. The following two cases illustrate allegations of the abuse of state resources that the Auditor General investigated.

Case C

A state agency paid an employee over $3,000 for travel expenses that the employee incurred while conducting personal business. The employee filed travel claims for personal expenses over a period of nearly two years. The majority of the expenses claimed by the employee were a result of personal travel between the agency's office in Los Angeles and the employee's home in Santa Barbara. Before resigning from the agency, the employee reimbursed the agency $3,196.30 for the improper travel claims.

The Auditor General concluded that the agency's controls over travel reimbursements were not adequate to ensure that the agency reimburses employees only for travel expenses incurred while conducting state business. The agency revised its procedures for approving travel and travel expenses. Employees must now show on their travel expense claims the purpose of each day of travel. In addition, the agency has given to its accounting office staff procedures for resolving questionable travel claims.

Case D

An agency official wasted over $3,400 in state funds by traveling on state time and expense for purposes of questionable value to the State. In most instances, the official's travel involved trips to Southern California that coincided with weekends he spent at his home there. At our request, the official's superiors reviewed his travel claims and concluded that many of the official's trips could not be justified as beneficial to the State.

As a result of the Auditor General's investigation, the official was required to file amended travel expense claims and to reimburse the State by more than $3,400. In addition, the official was directed to review carefully all applicable travel rules and regulations and to follow them in the future. The official's superiors will also review and approve the official's travel claims before the claims are processed for payment.

## MISUSE OF STATE VEHICLES

State employees are sometimes authorized to use state automobiles and trucks in the conduct of their official duties. Employees sometimes abuse this privilege, however, by using the vehicles for personal purposes or for unauthorized trips. In other instances, state employees may fail to observe all traffic laws. Practices such as these may result in a waste of state funds and in a threat to the safety of the state employee and the general public. The

following cases illustrate allegations of misuse of state vehicles that the Auditor General investigated.

Case E

A state employee used a state vehicle while he was on vacation and during a personal trip to the San Francisco Bay Area. The employee had a special arrangement with his supervisor that allowed the employee to use the state vehicle during the vacation because the employee was to do some state work during that time. However, the employee was not to receive any travel expenses for the vacation. The special arrangement did not include the employee's use of the vehicle for a personal trip to San Francisco.

As a result of the Auditor General's investigation, the employee was required to reimburse the State for the costs of using the vehicle during his trip to San Francisco. Further, the employee and the supervisor were both informed that they are not to repeat such "irregular" arrangements in the future.

## PERFORMANCE AUDITS

The Performance Audit Division assists the Legislature in determining whether state agencies, and other agencies receiving state funds, are conducting programs economically, efficiently, and effectively. From July 1, 1983, through June 30, 1984, the Performance Audit Division issued 40 reports concerning programs conducted by 33 different agencies. These reports included recommendations that should save the State more than $165 million. We also recommended changes in procedures that should enable state agencies to function more effectively.

Among the major subjects we discussed in our audit reports were the following: collection of revenue for the Victims of Crime Program, administration of public funds by the Office of Economic Opportunity, efforts by the regional and state water quality control boards to reduce and prevent contamination of water supplies, management of excess state lands by the Department of General Services, and efforts by the Department of Social Services to detect double payment of benefits to recipients of welfare. We continued our reports to the Legislature on the administration of the Medi-Cal program including the process for and the selection of the next Medi-Cal fiscal intermediary.

Ten of our audits concerned programs administered by the Department of Health Services, three audits pertained to programs conducted by the Department of Social Services, and three pertained to programs managed by the Department of General Services. On the following pages, we present summaries of the reports issued by the Performance Audit Division.

REVIEW OF AREA AGENCY ON AGING EXPENDITURES FOR SERVICES FOR THE ELDERLY FOR FISCAL YEAR 1982-83

Summary of Findings

The Department of Aging (department) and a network of 33 area agencies on aging (area agencies) are responsible for ensuring that the elderly in California receive necessary social and nutritional services. Using federal, state, and local funding, the 33 area agencies in the State spent approximately $111.1 million during fiscal year 1982-83 to provide services for the elderly. Of the $111.1 million, the federal government provided $55.5 million under Title III of the Older Americans Act. During fiscal year 1982-83, the five area agencies we visited spent $1.7 million, 12.2 percent of their total federal Title III funds, on advocacy, on behalf of the elderly, coordination of services, development of programs, and administration of area plans.

Federal regulations governing the use of Title III funds allow area agencies to use up to 8.5 percent of available federal funds for administration of area plans. Area agencies must include the costs of coordination and program development with the costs of area plan administration until 8.5 percent of total federal Title III funding is spent. When the costs of coordination, program development, and administration exceed the 8.5 percent limit, area agencies must report the costs of coordination and program development as social services costs. The federal government pays up to 85 percent of the costs of social services. Two of the five area agencies we visited used the entire 8.5 percent allotment of federal Title III funds for coordination, program development, and administration.

The area agencies generally relied on their area plans. The area plan, which each area agency prepares each year, must include specific program objectives, a plan to allocate resources, and a description of the methods used to set service priorities. Each area plan is reviewed by a local advisory council, and each must be approved by the department.

We also reviewed area agencies' expenditures for monthly meetings of the California Association of Area Agencies on Aging (association). The directors of the area agencies in the State constitute the membership of the association. The area agencies pay for travel, per diem, and salary to send representatives to the association meetings. In fiscal year 1982-83, the area agencies we visited spent a total of $4,988 to send representatives to these meetings. To support the activities of the association in fiscal year 1982-83, the department allocated $30,000 from the federal Title III grant for social services.

Finally, we reviewed the efforts of area agencies and service providers to generate new resources for providing services to the elderly. Area agencies and service providers conduct a variety of activities to obtain new resources, from soliciting local and private monies to pilot testing new programs. Most of the area agencies and the providers we contacted considered generating new resources to be a responsibility that they share. Most also agreed that it would be difficult to document their individual effectiveness in obtaining new resources not only because they are not required to keep records of their efforts to generate new resources but also because both area agencies and providers often work jointly toward a specific objective.

## THE STATE ATHLETIC COMMISSION NEEDS TO IMPROVE ITS ENFORCEMENT OF BOXING SAFETY LAWS AND REGULATIONS

### Summary of Findings

Because boxing is an inherently dangerous sport, the California State Legislature directed the State Athletic Commission (commission) to enforce the State's safety laws pertaining to professional boxing. However, the commission does not currently enforce all boxing safety laws and regulations. In a February 1984 letter to the Governor, the commission stated that it cannot fulfill many of its responsibilities because of budget constraints and insufficient personnel. As a result of its deficiencies, the commission may be compromising the safety of professional boxers.

The commission has no written procedures for approving the boxing contests that make up boxing shows, and chief athletic inspectors do not document their approvals or indicate what steps they have taken to review a boxer's fitness to participate in a contest. In our review of 10 of the 187 professional boxing shows that the commission regulated during calendar year 1983, we identified one boxer whom the commission had retired for consistently poor performance who was later approved to fight in a boxing contest.

The commission does not assign to boxing contests only those referees who have attended training clinics, and the commission does not evaluate each referee's performance at boxing contests. State law requires the referee to attend a training clinic at least six months before the commission assigns him to a boxing contest. In addition, state regulations require the commission to evaluate each referee's performance for every boxing contest at which the referee officiates.

Similarly, the commission is not using inspectors and ringside physicians who have attended appropriate training clinics. State laws that became effective January 1, 1984, require inspectors and ringside physicians to attend training clinics at least six months before boxing shows at which they officiate. The commission currently uses inspectors and ringside physicians who have not attended the required training clinics.

We also found that the commission is not consistently complying with state regulations that require the commission to suspend boxers who are knocked out or who sustain serious injuries during boxing contests. Our review of 10 boxing shows revealed 24 boxers who were knocked out and who should have been suspended; however, we could not find any evidence that the commission had suspended 17 of those 24 boxers. Moreover, the commission does not regularly communicate suspensions to training gymnasiums and to individuals responsible for arranging boxing contests. As a result, boxers who are high risks for injury may be participating in contact training and in boxing contests.

The commission requested one additional assistant chief athletic inspector position and four additional clerical positions for fiscal year 1984-85. We were unable to confirm its need for an additional assistant chief athletic inspector because the commission has not maintained adequate data on the workload for this position. The commission's information on its clerical workload indicates that the commission may need only three additional clerical staff positions to help it fulfill its mandated responsibilities. The Department of Finance denied the commission's request for additional staff because the Athletic Commission Fund had insufficient funds to support new positions.

In addition to fulfilling its mandated responsibilities, the commission needs to develop detailed procedures for handling boxers who sustain serious injuries. In a boxing contest in September 1983, a boxer was injured and subsequently died. The call for emergency medical personnel was inexplicably delayed at least 28 minutes, and the caller did not fully inform emergency medical personnel about the nature of the injury. In addition, the ringside physician and one of the paramedics who responded to the call disagreed over how the physician should have handled the injured boxer before the arrival of the paramedics. The commission plans to consider establishing an advisory medical committee that could prescribe a strict set of procedures for commission officials to follow when handling boxers who become seriously injured.

## Recommendations

To help the State Athletic Commission enforce boxing safety laws and regulations consistently, the Legislature should authorize three temporary clerical positions for the commission. The Legislature should also require the commission to maintain workload data for use in future staffing decisions.

The commission should fulfill all of its mandated responsibilities, and it should establish an advisory medical committee that would prescribe strict procedures for ringside officials to follow when handling boxers who are seriously injured during a contest. The commission should also evaluate methods to increase revenues to its Athletic Commission Fund so that it can support additional staff positions. Finally, the commission should assess the effectiveness of existing statutory and regulatory requirements to determine which mandates can be eliminated so that current staff have more time to complete the commission's most important tasks.

## REVIEW OF THE BUREAU OF EMPLOYMENT AGENCIES

### Summary of Findings

The Bureau of Employment Agencies (bureau) within the Department of Consumer Affairs (department) is responsible for regulating employment agencies licensed under the Employment Agency Act and for regulating nurses' registries licensed under the Nurses' Registry Act. The bureau's primary responsibility is to provide consumer protection to those purchasing the services of the employment agencies and nurses' registries that it regulates.

In providing consumer protection, the bureau has three primary functions: examination, licensing, and enforcement. An employment agency, as defined by the Employment Agency Act, must be licensed by the bureau in order to operate in California. All prospective licensees must first pass a qualifying examination administered by the bureau. The bureau's enforcement activities include reviewing complaints, mediating disputes, and if appropriate, initiating disciplinary action. The bureau also regulates the nurses' registries, which obtain and fill jobs for nurses. The bureau's procedures for regulating nurses' registries are the same as those for regulating employment agencies except that no examination is required for a nurses' registry license. The bureau is funded entirely by examination and licensing fees.

In September 1983, the Legislature expanded the Employment Agency Act to include regulation of computer agencies and to require job listing services to be licensed by the bureau. This legislation (which became effective April 1, 1984) also requires computer agencies and job listing services to fully refund fees if a client is not supplied with at least three available employment opportunities within 5 days of paying the fees. Also, the legislation requires that these businesses refund partial fees if at the end of the contract period the client does not obtain a job through the efforts of the agency or service.

### Recommendations

The Legislature should revise the Employment Agency Act to delete from the act two categories of currently licensed agencies, farm labor agencies and modeling agencies. The Bureau of Employment Services has never issued a farm labor agency license, and the number of modeling agencies licensed by the bureau has been steadily decreasing. In fiscal year 1982-83, the bureau issued only two modeling agency licenses. Also, farm labor contractors and most modeling agencies are currently licensed and regulated by the Department of Industrial Relations. Additionally, because of the number and types of complaints against career counseling services, the bureau recommended that career counseling agencies be listed under the Employment Agency Act and, thereby, regulated by the bureau.

## COURTS AND COUNTIES ARE NOT COLLECTING AND REMITTING TO THE STATE ALL REVENUE FOR THE VICTIMS OF CRIME PROGRAM

### Summary of Findings

The system for collecting and remitting fines and assessments that support the Victims of Crime Program (victims program) needs improvement. California courts and probation departments in four counties we reviewed have not collected the proper amounts of fines and assessments, and counties have not remitted the proper amount of revenue to the State. The net effect of the inaccurate collections and remittances by the counties between July 1981 and June 1983 was an underpayment to the State of more than $1.5 million. In addition, over $1.4 million in assessments collected by the State's Traffic Adjudication Board has not been transferred to the correct state fund for support of the victims program.

The victims of crime program compensates California residents who are injured and suffer financial hardship as the result of a violent crime. Support for the victims program is derived from fines collected from persons convicted of driving under the influence of drugs or alcohol or of crimes of violence and from assessments collected from persons convicted of these and all other criminal offenses. Courts, probation departments, county clerks, and county collection departments collect the fines and assessments and report the amount to the county auditors, who remit the revenue to the State. The Traffic Adjudication Board also collects assessments for the State.

Three of the four counties we visited underpaid the State in assessments during calendar year 1982. Los Angeles County underpaid the State by approximately $1.7 million, and Alameda County and Santa Clara County similarly underpaid assessments due the State in 1982 by a total of approximately $63,900. Conversely, from January 1982 through June 1983, Riverside County reportedly overpaid the assessment by approximately $131,400.

We also found that some counties were not remitting to the State proper amounts of fines levied on defendants convicted of driving under the influence (DUI) of alcohol or drugs. State law requires courts to report to the county auditor the first $20 of monies collected for DUI convictions. The county auditor is to remit this amount plus the assessment collected on the total DUI fine to the State. However, some courts in Los Angeles County and Riverside County did not begin reporting DUI revenue until four to nine months after the state law became effective. We estimated that the courts in the two counties underreported DUI revenue by a total of $32,100 during 1982. Conversely, two municipal courts in Los Angeles County overreported DUI fines by $235,900, and Alameda County overpaid DUI fines to the State by $27,800 from January 1982 through June 1983.

Counties do not collect and remit the proper amounts of fines and assessments partly because the State Controller has not provided counties with timely notice of new collection requirements. The State Controller also has not adequately monitored the counties to determine that biennial audits of municipal and justice courts are completed promptly and that the scope of the audits ensures that the courts are levying, collecting, and reporting the proper amount of revenue. Moreover, legislation that established the victims program does not clearly define the responsibility of the State Controller to monitor the revenue collections.

Since creating the victims program in 1967, the Legislature has changed legislation several times to increase financial support for the program. However, the changes have not produced enough revenue to fund the program fully. For example, in the three fiscal years 1980-81, 1981-82, and 1982-83, revenue for the victims program was not sufficient to pay all claims. The deficiency in revenue resulted from several factors in addition to county underpayments of fines and assessments. First, revenue produced by DUI fines has not been significant because not all DUI convictions result in fines. Second, state revenue from DUI fines has also been reduced by an apparent conflict between Sections 1203.1 and 1463.18 of the California Penal Code. Finally, fines levied on defendants convicted of violent crimes have also not produced significant revenue for the State.

Recommendations

To correct weaknesses in the system for collecting and remitting revenue for the Victims of Crime Program, the Legislature should authorize the State Controller to monitor the collection activities of all courts, probation departments, county collection departments, and county auditors that collect revenues to support the program. The Legislature should also resolve the apparent contradiction in sections of the Penal Code that pertain to DUI fines.

In addition, the State Controller should direct the courts to establish procedures for calculating assessments accurately and should provide the courts with timely, accurate updates to reflect changes in the statutes. Finally, the State Controller should monitor the counties to make certain that biennial court audits are completed promptly and that the scope of these audits ensures that the courts are properly levying, collecting, and reporting fines and assessments due the State.

## A REVIEW OF ADMINISTRATIVE COSTS AT TWO CENTERS FOR THE DEVELOPMENTALLY DISABLED

### Summary of Findings

Our review of two regional centers that provide services to the developmentally disabled showed that the administrative costs for these two regional centers for fiscal years 1980-81 through 1982-83 rose at a slower rate than the regional centers' costs for providing services to clients. We also found that these two regional centers spent a total of $132,639 through February 1984 on legal defense.

From fiscal year 1980-81 through fiscal year 1982-83, the Harbor Regional Center's total expenditures rose from $7.6 million to $10.3 million, an increase of $2.7 million. While the regional center's expenditures for administration rose $0.2 million (15 percent), its expenditures for providing client services rose $2.5 million (41 percent). The increase in administrative costs at the Harbor Regional Center was caused primarily by higher rent and higher costs for administrative staff. The increased cost of client services reflects increases in the number and cost of regional center staff who provide services directly to clients, increases in the cost of services purchased for clients from outside sources, and increases in the number of clients.

The San Diego Regional Center's total costs rose from $11.2 million to $15.5 million between fiscal year 1980-81 and fiscal year 1982-83, an increase of $4.3 million. The San Diego Regional Center's costs for administration rose $0.4 million (27 percent), while the cost of client services rose $3.9 million (40 percent). Administrative costs at the San Diego Regional Center increased primarily because of increased costs for rent, for administrative staff, and for telephones and other general expenses. Client services costs rose because of increases in the number and cost of regional center staff who provide services directly to clients, increases in the cost of purchased services, and increases in the number of clients.

The two regional centers also spent money on legal defense. Until fiscal year 1981-82, regional centers overspent their budgets and received budget augmentations to cover their projected deficits. When the State faced fiscal problems in fiscal year 1982-83, the Department of Developmental Services (department), in accordance with the 1982 Budget Act, directed the regional centers to stay within their budgets and to set priorities to limit services. The Harbor Regional Center and the San Diego Regional Center therefore cut lower priority client services and placed new clients on waiting lists. The Association of Retarded Citizens sued the department and the two regional centers to prevent the reduction of services to the developmentally disabled.

## THE OFFICE OF ECONOMIC OPPORTUNITY COULD IMPROVE ITS ADMINISTRATION OF THE LOW INCOME HOME ENERGY ASSISTANCE BLOCK GRANT

### Summary of Findings

The Office of Economic Opportunity (OEO) has not adequately administered the three block grant energy assistance programs authorized by the federal Low-Income Home Energy Assistance Act of 1981. The federal block grant for federal fiscal year 1981-82 was almost $85.9 million; the block grant for 1982-83 was nearly $90.4 million.

Under the Home Energy Assistance Program, the OEO provides direct cash assistance to offset home energy costs of recipients of Aid to Families with Dependent Children (AFDC) or the Supplemental Security Income/State Supplementary Program (SSI/SSP). However, the OEO's procedures have unnecessarily restricted the number of eligible applicants for this program. The OEO's eligibility periods during federal fiscal years 1981-82 and 1982-83 prevented potentially eligible applicants from receiving assistance in meeting their home energy needs during those years. Furthermore, the OEO did not notify all potentially eligible applicants of the program's availability. As a result of such policies, the OEO failed to serve at least 116,000 additional households during federal fiscal year 1981-82.

Also, the OEO does not ensure that it provides funds only to households eligible for the Home Energy Assistance Program. Although the OEO verifies that an individual applicant's income does not exceed the OEO's limit, 130 percent of federal poverty guidelines, the OEO does not review the income of other members of an applicant's household. As a result, some households may have received energy assistance payments even though the combined income of the recipients would have made those households ineligible.

The OEO has generally distributed payments under the Home Energy Assistance Program during periods of high energy demand. During federal fiscal year 1980-81, the OEO distributed approximately 70 percent of its energy assistance payments during periods of highest energy consumption. However, during 1981-82, the OEO did not distribute any payments during the winter period of highest energy consumption and distributed 35 percent of the payments during the summer months. In 1982-83, the OEO distributed 55 percent of the payments in the winter period of high energy consumption.

The OEO also distributes federal block grant funds for two other energy assistance programs that are administered by community agencies. However, the OEO has not always promptly reimbursed community agencies for the services they have provided. For federal fiscal year 1981-82, the OEO had not processed more than 40 percent of the invoices we

examined for the Energy Crisis Intervention Program and the Weatherization Program according to the time standards that the OEO had set. Moreover, the OEO's procedures for processing invoices were even less efficient during the succeeding year. Because of the OEO's delay in processing invoices, some community agencies discontinued services until they received reimbursements, while other community agencies borrowed funds to continue services while awaiting reimbursement.

Moreover, the OEO does not consider differences in climate and utility rates when distributing funds under the Energy Crisis Intervention Program. As a result, households with the highest energy demands receive relatively less assistance than do households with lower energy demands. Furthermore, the OEO has not offered all applicants who have been denied services under the Energy Crisis Intervention Program and the Weatherization Program the opportunity to appeal. Federal law requires that an opportunity to appeal be given to applicants who may have been denied services inappropriately or whose applications are not acted upon with reasonable promptness.

Finally, state law stipulates that no more than 7.5 percent of the federal block grant can be allocated for administrative costs; this amount appears adequate to cover the OEO's administrative costs. In contrast, community agencies reported that the OEO did not distribute adequate funds to cover their costs of administering energy assistance programs. As a result, some community agencies had to use funds from other programs or had to use private donations. One community agency declined an Energy Crisis Intervention Program contract in federal fiscal year 1981-82 because the OEO provided insufficient funding for administrative costs. Consequently, low-income residents in the area served by this community agency were without energy assistance for most of federal fiscal year 1981-82.

## Recommendations

To provide Home Energy Assistance Program funds to the largest number of people, the Office of Economic Opportunity should extend the program's eligibility period to include all persons who receive AFDC and SSI/SSP assistance throughout the year, compile a mailing list that includes all potentially eligible recipients, and mail an application for the program directly to each household. When determining an applicant's eligibility for assistance, the OEO should require all applicants to supply the social security numbers of all members of the household. The OEO should use available data to verify the income of the entire household.

To ensure that community agencies receive prompt reimbursements for expenses they incur in providing services under the Energy Crisis Intervention Program and the Weatherization Program, the OEO should establish policies, procedures, and priorities that reduce the time necessary to process the invoices and reimburse the community agencies.

To better serve households with the highest utility costs, the OEO should establish assistance limits for the Energy Crisis Intervention Program that consider the variations in utility rates and climate. To comply with federal law pertaining to the Energy Crisis Intervention Program and the Weatherization Program, the OEO should establish procedures for providing fair hearings to applicants who are denied services. The OEO should ensure that the community agencies inform applicants about hearing procedures.

Finally, to ensure that community agencies receive sufficient funding for administrative expenses, the OEO should require community agencies to submit budgets outlining estimated administrative and program expenses and should determine administrative allocations to community agencies based on the agencies' needs. To ensure that the OEO remains within the 7.5 percent limit on administrative costs set by the California Government Code, the Legislature should enact legislation that clearly defines the administrative expenses to be included in the 7.5 percent limit.

## THE OFFICE OF ECONOMIC OPPORTUNITY HAS NOT CONTROLLED PUBLIC FUNDS PROPERLY

### Summary of Findings

California's Office of Economic Opportunity (OEO) has had poor control over funds from the federal government's Low-Income Home Energy Assistance Program and Community Services Block Grant program. For fiscal year 1983-84, these funds totaled approximately $131.6 million. Because the OEO has had deficient fiscal management and monitoring procedures, the OEO and the community agencies with which it contracts have misused public funds. We conducted limited on-site reviews at 12 community agencies that had received federal funds from the OEO and found that 5 of the 12 agencies had made either improper or questionable expenditures.

Weaknesses in OEO's fiscal management procedures have allowed public funds to be spent improperly at the state and local levels. For example, public funds that the OEO had awarded to the Bay Area Preparatory Program, Inc., were allegedly deposited in the bank accounts of the OEO's deputy director of administration and the director of the agency. These individuals have since been arrested and charged with grand theft and conspiracy in connection with this $75,000 contract award. In another instance, the director of the Orange County Community Development Council, Inc., who has since been replaced, used approximately $2,900 for personal expenses and loaned $750 to an employee involved in a drunk driving charge to help him pay for legal fees. We also found that some community agencies had made questionable expenditures. For example, the Campesinos Unidos, Inc., purchased glass doors for a food cooperative for $1,183; the agency had not included the doors in its program budget.

The OEO has also been inconsistent in its use of criteria for awarding contracts to community agencies, and it has not followed proper contracting procedures. As a result, the OEO is restricting competition for federal funds and cannot ensure that funds are spent properly.

In addition, during fiscal year 1982-83, the OEO underpaid by approximately $2.4 million more than 32,000 households that were eligible for the Home Energy Assistance Program. Once it discovered its error, the OEO took over 14 months to issue the payments due these households. Furthermore, because the OEO was not prompt in applying for funds from the Low-Income Home Energy Assistance Program for fiscal year 1983-84, the OEO was unable to provide financial assistance to low-income households during the winter of 1983, a period of high energy consumption.

Conversely, community agencies have overpaid financial assistance to some households because the OEO has not strictly adhered to its policies for ensuring that low-income households receive only the level of assistance to which they are entitled under the Energy Crisis Intervention Program. We identified eight instances in which households in the Oxnard area received more than the $300 maximum level of assistance allowed by the program.

Further, we found that there is a conflict between state and federal statutes regarding the eligibility of American Indian tribes and organizations for funds from the Community Services Block Grant program. In addition, the state statute pertaining to limitations on administrative expenditures by community action agencies and the statute that limits cash advances to community agencies may be interpreted in ways that could conflict with federal guidelines.

In the fall of 1983, before the start of this audit, the Governor's Office became aware of problems at the OEO. On March 6, 1984, the director of the OEO resigned, and the Governor appointed an interim director. At the time of our report, the interim director had corrected some of the problems identified in our report and had initiated or planned to initiate corrective action to remedy some of the other problems that we identified. The OEO should fully implement these actions and also act on the recommendations we present below.

Recommendations

The Governor and the Legislature should ensure that the Office of Economic Opportunity takes the following actions to correct its deficiencies: ascertain, within 90 days of the beginning of the contract period, that each community agency will use a reliable system of internal fiscal controls; give each community agency an equal chance to compete for available federal funds; base the timing and the amounts of its periodic payments to a community agency upon the agency's demonstrated need for funds; have a reliable system for auditing and continually monitoring the community agencies with which it contracts; and implement a system for reviewing independent audits of all OEO program funds that are received and used by community agencies.

Further, the Legislature should authorize the Auditor General to conduct comprehensive audits of the community agencies in which we identified problems. The Legislature should also clarify the state statutes pertaining to the Community Services Block Grant so that state and federal statutes do not conflict and so that the OEO will not interpret state statutes in ways that will conflict with federal laws and guidelines.

## THE OFFICE OF CHILD DEVELOPMENT: A LIMITED REVIEW OF FISCAL, ADMINISTRATIVE, AND PROGRAM ISSUES

### Summary of Findings

The Office of Child Development (OCD) within the State Department of Education oversees a variety of programs that provide child care and development and preschool services for children from infancy to age fourteen. The OCD contracts with over 560 public and private agencies to operate these programs in child care centers and homes. We were asked to conduct a limited review of the OCD's contracts with Continuing Development, Inc., and a related contractor, Child Development, Inc., for child care and development and preschool services. Continuing Development is a nonprofit corporation that has six OCD contracts totaling $2.77 million. Child Development is a private, profit-making corporation with one OCD contract totaling over $751,000. In addition to administering an OCD contract, Child Development is a subcontractor for the nonprofit Continuing Development, administering five of the latter's six OCD contracts.

Our analysis provides information about ten areas related to the fiscal, administrative, and program operations of these OCD contractors. In seven of the ten areas we examined, we found no problems. In three areas, we found contractor policies that were inconsistent with state policies; none of the inconsistencies was major. Continuing Development reimbursed employees for actual travel expenses instead of using the prescribed state per diem rate of $62. Our sampling of travel reports indicated that the total of actual travel expenses that Continuing Development reimbursed was considerably less than the total that would have been allowed using the state per diem rate. Also, Continuing Development was inappropriately paying for renovations to a trailer that houses a year-round center for children of migrant workers. Had the owner of the facility made the renovations and charged Continuing Development a higher rent, Continuing Development would not have violated any OCD guidelines. Finally, Continuing Development recorded ineligible children in the 1983 Child Care Food Program at a total cost of approximately $344.

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EMPLOYMENT DEVELOPMENT DEPARTMENT
DEPARTMENT OF REHABILITATION

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## THE STATE'S PROJECT WORKABILITY HAS IMPROVED THE COORDINATION OF SERVICES FOR AND THE EMPLOYABILITY OF HANDICAPPED STUDENTS

### Summary of Findings

Project Workability (project) is an employment and training program designed to enable handicapped high school students to become more employable. The project provides skills assessments, employment training, work experience, and other support services to these students. Based upon our review and the evaluations conducted by agencies participating in the project, we concluded that the project has improved both the employability of handicapped students and the coordination of services to these students. However, we could not fully assess the effectiveness or the long-term results of Project Workability because the project had been operating for just over one year. In addition, approximately 56 percent of the participants were juniors or sophomores in high school and thus not yet available for employment.

The project is designed to coordinate services of the State Department of Education (SDE), the Employment Development Department (EDD), and the Department of Rehabilitation (DR). The SDE is responsible for the overall administration of the project. In fiscal year 1982-83, 34 local educational agencies operated the project at the local level. The local educational agencies provided employment training and related services, the EDD provided job placement assistance, and the DR provided counseling and other support services. The project enabled agencies at the state and local levels to coordinate responsibilities and avoid duplicating certain activities. This coordination improved the services to the handicapped students and, in some instances, enabled participating agencies to avoid the costs of providing duplicate services.

In fiscal year 1982-83, 2,051 handicapped students participated in the project; 1,007 of these students received on-the-job training. Of those who graduated from high school or left school after receiving this training, 49 percent obtained jobs. Staff from agencies participating in the project noted some instances in which handicapped students who might otherwise have depended upon public assistance found employment as a result of the project. In addition, the project has improved the attitudes of the students and their parents, teachers, and employers about the employability of handicapped students.

The SDE has contracted with the University of California at Santa Barbara to assess the project's effectiveness by tracking students who obtained employment as a result of their participation in the project. A final report is expected in August 1984. In addition,

the SDE has established committees, composed of representatives from various local educational agencies that participated in the project, to evaluate the services that this project provided.

Recommendations

To ensure that state and local agencies continue to coordinate services to handicapped students, the State Department of Education, the Employment Development Department, and the Department of Rehabilitation should continue their participation in Project Workability to the extent that resources are available. Furthermore, the SDE should continue its efforts to evaluate the project with the cooperation of the EDD and the DR. Finally, the SDE should report to the Legislature by September 1985 on the long-term effects of the project. This report should include a cost-benefit analysis of the project.

## THE DEPARTMENT OF GENERAL SERVICES CAN REDUCE RADIO COMMUNICATION COSTS TO STATE AGENCIES

### Summary of Findings

The Department of General Services' Communications Division (division) is not providing radio services to state agencies at the lowest cost to the State. There are several reasons for this. First, the division is not coordinating and standardizing the State's radio equipment needs. The division approves state agencies' requests to purchase various quantities of identical or similar radio equipment throughout the year. If the division consolidated these requests, the State could obtain larger discounts for volume purchases of radio equipment. For example, we estimate that if the division had consolidated purchases for a specific type of portable radio in fiscal year 1980-81, the State could have saved approximately $77,000.

The division also allows state agencies to order too much special radio equipment. Approximately 50 percent of mobile radios and 35 percent of fixed radio stations used by state agencies are special radio products. Since special radio equipment is usually more expensive than standard radio equipment, ordering special equipment results in extra cost to the State. Special radio equipment also takes longer to repair than standard equipment.

Second, the division delays completing some radio engineering and installation projects. Because of delays, costs for these services are higher than necessary, and operations of state agencies may be adversely affected. Completion of some radio engineering and installation projects is delayed because the division lacks a project control system and because of inadequacies in the division's Engineering Section.

Delays also occur because division technicians take longer to repair some radio equipment than technicians employed by private industry. In the sample of repairs we reviewed, division technicians took longer to repair four of five types of radio equipment. In fiscal year 1981-82, repair of these five types of equipment accounted for 55 percent of the division's equipment repair hours. If division technicians had completed the repairs in our sample as quickly as did the private technicians, the division could have charged state agencies $106,400 less for these repairs. Division technicians take longer to repair radio equipment primarily because the division has no system for monitoring technicians.

Third, the division's charges for services do not accurately reflect the division's cost of providing the services. During fiscal years 1977-78 through 1981-82, the division overcharged state agencies approximately $3.6 million for telephone services and undercharged

agencies nearly $1.8 million for radio services. Further, for its radio services, the division overcharged agencies for radio maintenance and repair and undercharged agencies for radio engineering and for radio installation and modification. These discrepancies between costs and charges occurred because the division has not accurately calculated its rates.

Finally, because the division's charges do not reflect its actual costs, the division's comparison of its service rates with rates in private industry is not accurate. The division also lacks a standard methodology for comparing its service rates with rates in private industry. Hence, the division cannot make an accurate assessment of its rates for radio services.

Recommendations

The Department of General Services' Communications Division should require that agencies prepare and file five-year communication plans that would enable the division to assess the state agencies' annual radio equipment needs. The division should also work with the Office of Procurement to develop procedures to consolidate purchases of radio equipment. Further, the division should assess the agencies' needs for special radio equipment to determine whether standard equipment would meet the agencies' requirements, and the division should set goals to convert to the use of standard equipment in a majority of designs.

The division should implement a project control program for engineering and installation projects. Such a program should include project planning, information feedback, and control for each phase of major projects. The division should also develop additional drafting and engineering standards, develop an in-house training program for engineers, and consider reorganizing the Engineering Section. The division should adopt procedures to monitor repair technicians. These procedures should include development of workload standards as mandated by the Legislature.

The division should review the operating results for each type of service separately and adjust the rates for those services generating overcharges or undercharges. Finally, the division should develop a standard methodology for selecting the models of equipment used in comparing its service rates with rates in private industry.

## CALIFORNIA COULD EARN MILLIONS OF DOLLARS FROM BETTER MANAGEMENT OF ITS EXCESS LAND

### Summary of Findings

The State of California could earn millions of dollars in revenues from better management of land that is not currently used for state programs. Much of this land is excess land that state agencies will not need for state programs in the foreseeable future. Moreover, much land that agencies are retaining for future use is unused or underused. The State could earn increased revenue and benefits by disposing of excess land and by better management of land held for future use.

We examined 17,087 acres of land managed by four state agencies at 15 sites. We identified nearly 10 percent of the land as excess land, that is, land that agencies are not using and do not plan to use in the future. These 1,675 acres of excess land have an estimated value of approximately $164 million. The California Government Code requires state agencies to report excess land to the department annually. The department reports this land to the Legislature, and the Legislature authorizes the disposal of the excess land as surplus property. However, none of the 1,675 excess acres we identified was reported as surplus property in the 1982 reporting cycle.

State agencies do not report excess land because state agencies do not place a high priority on such reporting. Most state agencies do not benefit from the proceeds of the sale. Moreover, agencies may not report excess land because the State's definition of excess land ("in excess of its foreseeable needs") is imprecise. Further, although the department can propose to the Legislature potential surplus land identified through its own independent investigations, the department does not systematically identify such land; the department identifies land as potential surplus only as it is discovered through other departmental activities.

In addition to not reporting their excess land, state agencies are not earning the highest economic return from state land being retained for future programs. The California Government Code allows state agencies to lease land that is not currently needed for state programs. However, the State does not have a policy or procedures to promote the highest economic return from interim uses of such lands. The four agencies in our sample are retaining over 5,000 acres of land for future use; less than half of this land is currently leased.

Finally, state agencies that lease land to outside entities are not always collecting expenses for which the agencies should be reimbursed. In three of the ten leases in our sample that included or should have included maintenance and utility fees, agencies did not collect a total of $13,656 in reimbursable expenses for fiscal year 1982-83. These

uncollected expenses represent state subsidies to lessees. Agencies do not collect all reimbursable expenses because the State has not established adequate procedures to update all leases to include provisions for collecting all utility, maintenance, and other reimbursable expenses. The department's informal procedures to update leases do not detect all deficiencies in leases of state land.

Recommendations

The Department of General Services should require state agencies to include current and future uses of all their landholdings on the annual reports that the state agencies prepare for the department's Division of Real Estate Services. The department should review systematically the reports submitted by state agencies. In addition, the department should plan and conduct periodic site inspections to identify potential surplus land. Further, to facilitate state agencies' identification of excess land, the department should draft a more precise definition of "excess land."

The Legislature should adopt legislation promoting interim uses of underused land that provide for the highest economic return to the State. This policy should also authorize the department to evaluate how state agencies use unneeded land and to propose interim uses of underused land that would generate the highest possible economic returns.

Finally, the department should systematically review all current leases and ensure that leases have been updated to include provisions for collecting adequate reimbursable expenses from lessees.

## REVIEW OF THE STATE'S LEASE-PURCHASE OF THE FRANCHISE TAX BOARD BUILDING

### Summary of Findings

The Department of General Services (department) competitively bid the lease-purchase of the Franchise Tax Board (FTB) building in accordance with the California Government Code and determined that the costs to lease-purchase the FTB building were acceptable. However, the department did not provide bidders with complete environmental impact information and final design drawings on which to base their bids. As a result, the winning bid may contain an undetermined amount for public transit costs that the department subsequently declared unnecessary, unresolved issues regarding building design and location developed, and preconstruction work on the FTB building had been delayed for over three months. Furthermore, the department was spending additional time to ensure that the developer conforms to the State's lease requirements, and the department was experiencing difficulty in monitoring the preconstruction phase of the FTB building.

The State is paying approximately $42 million to lease-purchase the FTB building, including the cost of land, construction, and financing. The cost of land is $6.2 million for 44.7 acres, or $3.20 per square foot. According to a department survey of private real estate transactions, the cost of this land is comparable to costs of similar parcels in Sacramento.

In addition, construction costs in the winning bid are similar to department estimates for constructing the FTB building. The department estimated that the costs of land and construction of an 800,000 square-foot building financed by capital outlay funds would be $56.4 million. The department's estimate for lease-purchasing the land and constructing a 465,000 square-foot building for the FTB was $36.9 million. The low bid chosen by the department for constructing a 466,000 square-foot building allocated approximately $30 million for the cost of land and construction.

The department financed the building at a maximum 9 percent interest rate, which was identical to the rates on two state bonds issued at approximately the same time that the certificates of participation were issued. Other financing charges, such as the underwriter's discount, are comparable to charges paid by other state agencies.

### Recommendations

The Department of General Services should provide bidders with complete bidding information, including a final Environmental Impact Report. In addition, the department should require bidders to identify in their bids specific amounts for costs of mitigating negative effects on the

environment. Additionally, when it bids future lease-purchases, the department should provide bidders with final drawings in compliance with the provision of the State Contract Act that requires complete plans and specifications.

## CALIFORNIA HAS MORE PHYSICIANS THAN IT NEEDS

### Summary of Findings

Studies by the Office of Statewide Health Planning and Development (OSHPD) and federal health manpower agencies show that the State has a surplus of physicians. Moreover, the number of physicians per 100,000 persons in California continues to increase. The OSHPD reports that a surplus of physicians may contribute to the rising costs of health care and may result in an increase of unnecessary medical risks for patients. Furthermore, the surplus of physicians may not help reduce the number of rural and urban areas in the State that are medically underserved.

The primary cause of the physician surplus is an influx of physicians from other states. Of the physicians practicing in California in 1980, 75 percent attended medical schools in other states. Half of this number had also completed their residencies before moving to California. The other half completed their residencies in California residency programs. According to the OSHPD, either of these two groups--those who complete their entire medical education before they move into the State or those who move to California to complete their residencies--is more than sufficient to replace the number of California physicians who cease their practice each year.

The State's General Fund contributed approximately $212.9 million in fiscal year 1982-83 for medical instruction and support of residency programs at the University of California (UC) medical schools. Based on our review of the data compiled and prepared by the OSHPD and the California Postsecondary Education Commission (CPEC), the State's subsidy for medical education is higher than needed to supply an adequate number of physicians in California.

Both the OSHPD and the CPEC oppose reducing enrollment in or closing any California medical schools as a means of controlling the number of physicians. However, the OSHPD has advocated reducing the number of residency positions as one means of control. UC staff believe that reducing the number of UC residency positions may not reduce the number of physicians moving to California to receive resident training because the hospitals currently affiliated with the UC may continue to provide residencies even if these residency positions are not affiliated with the UC. Reducing the number of UC residency positions would, however, reduce General Fund expenditures for training and compensating residents. In fiscal year 1982-83, the Legislature reduced the UC budget for medical resident students by $2.0 million.

Recommendations

To assist the Legislature in establishing state policies regarding the supply of physicians, the Office of Statewide Health Planning and Development should include the following in its 1985 Health Manpower Plan: a comprehensive discussion of the supply of physicians related to the State's present and future needs; a comprehensive discussion of the effect of the surplus of physicians on the cost and the quality of health care; a comprehensive exploration of various methods that might be used to control the number of physicians, including reductions in the number of residencies and increases in medical fees or tuition; and specific recommendations to the Legislature for changing policies, statutes, and programs related to medical education in California.

Similarly, the California Postsecondary Education Commission should follow the mandate of Chapter 600, Statutes of 1976 (Assembly Bill 1748), and include in its Health Sciences Education Plans specific recommendations for adding or eliminating health sciences educational programs. The CPEC should take into account the findings presented in the OSHPD's Health Manpower Plans.

If the physician surplus continues to exist, the Legislature may wish to consider increasing fees or instituting tuition at the University of California medical schools. The Legislature should also provide loans, grants, and repayment systems based upon students' financial needs and ability to pay.

## THE STATE DOES NOT ENSURE THAT HEALTH FACILITIES ARE CONSTRUCTED IN ACCORDANCE WITH BUILDING STANDARDS

### Summary of Findings

The State of California is having significant problems in implementing the Hospital Seismic Safety Act of 1982. The State's Office of Statewide Health Planning and Development (OSHPD), which is a part of the Health and Welfare Agency, administers the provisions of this act. To help assure that occupants of health facilities are safe from the forces of earthquakes, gravity, and winds, the act requires the OSHPD to review the construction plans of health facilities and to conduct inspections of construction projects.

However, the OSHPD has not ensured that officials at health facilities construct projects in accordance with building standards. Although the OSHPD should review construction plans for health facilities within an average of 4 weeks, the OSHPD has taken up to an average of 23 weeks to review construction plans. Officials at health facilities reported that, as a result of delays in the OSHPD's review process, facilities have incurred increased construction costs. In addition, the OSHPD estimated that it has not conducted approximately 3,000 needed inspections of construction projects, and the OSHPD has not ascertained that resident inspectors for health facilities are performing competent and adequate inspections. Further, the OSHPD identified approximately 300 projects that were being constructed before the OSHPD had approved them. The construction projects may be faulty and thus may pose a threat to the safety of patients. For example, officials at one facility repaired leaks in a roof without obtaining approval from the OSHPD. After a moderate rainfall, the roof was in danger of collapsing, and toxic fumes filtered into the building because builders had used improper construction materials to repair the leaks. Most of the patients at this facility had to be evacuated. Because the OSHPD has not carried out its responsibilities under the act, the public has limited assurance that health facilities are not endangering the health and safety of their occupants.

Lack of sufficient staff has been the chief cause of the OSHPD's failure to carry out all of its responsibilities. Two factors have contributed to the shortage of staff at the OSHPD. First, the Department of Finance was slow to approve the additional staff positions that the OSHPD had requested. Second, OSHPD officials said that the OSHPD has not always been able to hire staff to fill its approved positions primarily because the State's hiring lists have contained few entries for individuals who are knowledgeable about the construction of health facilities.

The OSHPD has not contracted with local governments for assistance because the OSHPD concluded that the cost of contracting would be excessive and because some local governments do not have personnel with expertise in health facility construction. Further, some local governments have not been willing to contract with the OSHPD because of their own heavy workloads. However, the director of the OSHPD said that the Department of Finance recently approved some new positions and also approved money for the OSHPD to contract with other agencies for assistance with its responsibilities. The director therefore believes that the OSHPD should have sufficient resources to administer the act during fiscal year 1984-85.

Recommendations

The Office of Statewide Health Planning and Development should review its procedures for critiquing the construction plans of health facilities and eliminate those procedures that are inefficient. The OSHPD should also conduct all needed inspections to ensure that projects at health facilities are constructed in accordance with building standards. The OSHPD should develop a system to track the progress of all construction projects at each health facility; develop an inspection data sheet that indicates at what points in the construction of a particular project the resident inspector is to request an inspection by the OSHPD; develop policies and procedures to ensure that the state inspector's time is used efficiently; and develop and implement procedures to assure that the Office of the State Fire Marshal is performing all required inspections.

In addition, the OSHPD should develop procedures to assess resident inspectors' qualifications and to evaluate each resident inspector's on-the-job performance. Further, the OSHPD should ensure that officials at health facilities apply for building permits, and it should develop a policy for issuing written orders to officials at facilities with unapproved projects to stop construction.

To help ensure that the OSHPD can hire staff who are experienced in health facility construction, the OSHPD should request the State Personnel Board to prepare up-to-date hiring lists that include the names of architects and engineers who specialize in the construction of health facilities and to establish a special job classification for the OSHPD's inspectors.

STATUS REPORT ON THE DEPARTMENT OF HEALTH SERVICES' IMPLEMENTATION OF THE MEDI-CAL CO-PAYMENT DEMONSTRATION PROJECT

Summary of Findings

The Medi-Cal co-payment demonstration project, which requires Medi-Cal beneficiaries to pay a nominal fee, or "co-payment," has been in effect since May 10, 1982. Data from the providers of Medi-Cal services indicate that about 50 percent of the providers are collecting co-payments. For those who choose to collect co-payments, the frequency of collections varies from less than 25 percent of the time to over 75 percent of the time. Some providers reported a decline in Medi-Cal use that may have been caused by the co-payment program, but we could not isolate the effect of this program on Medi-Cal use because of numerous other recent changes in the Medi-Cal program.

Although the Department of Health Services has begun to analyze the effectiveness of the co-payment concept, we do not believe that it will be possible for the department to demonstrate conclusively whether the co-payment project is effective. It may be difficult to isolate the effects of the co-payment program on Medi-Cal utilization from the effects of other Medi-Cal policy changes that may also affect utilization.

## A REVIEW OF THE DEPARTMENT OF HEALTH SERVICES' REQUEST FOR PROPOSAL FOR THE MEDI-CAL DENTAL PROGRAM

### Summary of Findings

We reviewed the Request for Proposal (RFP) prepared by the Department of Health Services (department) for the Medi-Cal dental program. We found that the RFP addresses many of the contract provisions of the current dental program. The current contract with California Dental Service is an at-risk contract; the RFP also requires an at-risk contract. Under an at-risk contract, the contractor receives advance premiums from the State to pay for dental services provided to beneficiaries. If service costs are greater than the amount received through premiums, the contractor assumes liability for the losses. The RFP also addresses the major provisions of the existing contract. These provisions primarily concern systems for processing claims for dental services.

Because the State will follow a competitive bidding process, the State should obtain the lowest feasible cost for the contractual services described in the RFP. In addition, the State will seek increased sharing of administrative costs by the federal government. However, a federal official indicated that increased sharing of costs may not be available for an at-risk contract.

Some provisions within the RFP may increase administrative costs because the RFP calls for additions to the system for processing claims and for storing and retrieving information. However, these changes should result in a more efficient program and, to some extent, reduced program costs.

Finally, the RFP contains provisions for assuring delivery of quality dental services. These quality-of-service provisions pertain to the contractor's fulfilling responsibilities specified in the contract and to the providers' furnishing dental care to Medi-Cal beneficiaries.

## THE SELECTION OF THE NEW MEDI-CAL FISCAL INTERMEDIARY

### Summary of Findings

This was the fifth Auditor General report addressing issues pertaining to the selection of the next Medi-Cal fiscal intermediary by the Department of Health Services' Medi-Cal Procurement Project (MCPP). Following the release of the Request for Proposal (RFP) on March 1, 1983, the MCPP received protests from two vendors, the Electronic Data Systems Corporation (EDS) and the Computer Sciences Corporation (CSC), concerning several provisions in the RFP. A third vendor, the McAuto Systems Group, Inc. (McAuto), submitted comments on the two protests. Acting on recommendations of an independent mediator hired by the Health and Welfare Agency, the MCPP changed sections of the RFP. The major change was the shortening of the contract takeover period by three months.

The MCPP received and evaluated proposals from the EDS, the CSC, and McAuto. In a four-phase evaluation process, the MCPP judged each of the proposals to be acceptable. We monitored each phase of the evaluation and found that the MCPP complied with required evaluation procedures. Although we found some errors on scoring sheets and documentation, the MCPP corrected these errors based on our comments and suggestions.

The MCPP invited the three firms that had submitted acceptable proposals to submit bids for the Medi-Cal fiscal intermediary contract. We reviewed drafts of the Invitation for Bid (IFB) and identified errors, which we made known to the MCPP. In addition, we suggested changes in format and language to make the IFB more clear. The MCPP incorporated these changes in the IFB.

On August 24, 1983, the MCPP opened bids. The Computer Sciences Corporation submitted the low bid of $72,950,000. On August 29, after its evaluation of the vendor's bid package, the MCPP announced the Notification of Intent to Award the contract to the CSC. As part of our monitoring, we reviewed the MCPP's evaluation of vendor bid packages and found that the MCPP had adhered to its procedures.

However, McAuto protested the award of the contract to the CSC. McAuto contended that the CSC bid was nonresponsive because the CSC significantly reduced proposed staffing and improperly modified its bid after the bid was opened. The Department of General Services was responsible for resolving this protest. The fiscal intermediary contract was not to be awarded until the protest was withdrawn or resolved.

## THE STATE'S MEDI-CAL FISCAL INTERMEDIARY IS NOT MEETING THE REQUIREMENTS OF THE NEW CLAIMS PROCESSING CONTRACT

### Summary of Findings

The Computer Sciences Corporation (CSC) has failed to meet the requirements of the new Medi-Cal fiscal intermediary contract, which became effective on October 1, 1983. The CSC has not delivered to the State acceptable plans, procedure manuals, and other required documents. (These documents are collectively called "deliverables.") In addition, the CSC has not submitted revisions of disapproved deliverables.

The Department of Health Services' Fiscal Intermediary Management Division (division) is responsible for administering the current Medi-Cal fiscal intermediary contract and for reviewing the CSC's transition from the current to the new contract. The division's staff evaluated the CSC's deliverables and as of December 21, 1983, judged 20 of 30 deliverables (67 percent) to be unacceptable. The reasons for disapproval include lack of detail and failure to comply with contract requirements.

Furthermore, the CSC has failed to deliver seven major workplans for review and to meet the deadlines for submitting revisions of disapproved deliverables. Although the division has disapproved most of the CSC's deliverables, the CSC has not submitted any revisions. The CSC's failure to submit deliverables and revisions by specified due dates could result in a delay in the transition schedule. The CSC was scheduled to assume operations under the new contract on July 5, 1984. Extension of the current contract because of delays would cost the State an estimated $1 million per month in additional expenses.

According to CSC officials, the CSC's failure to devote sufficient resources to support the transition to the new fiscal intermediary contract may have been partly responsible for its failure to submit acceptable deliverables on time and thus to comply with contract terms. Both the Request for Proposal and the CSC's proposal require the CSC to commit sufficient resources to meet the requirements of the contract.

### Recommendations

The State should assess the Computer Science Corporation for liquidated damages. According to the fiscal intermediary contract, the State's contracting officer can assess up to $500 per day for each deliverable that fails to meet contract requirements.

## REVIEW OF SELECTED CONTRACTS FOR CLEANUP OF THE STRINGFELLOW TOXIC WASTE DISPOSAL SITE

### Summary of Findings

The Stringfellow toxic waste disposal site was operated as a licensed toxic waste disposal site from 1956 to 1972. During that time, approximately 34 million gallons of toxic waste were discharged at the site. As a result of a spill of toxic waste into a nearby stream and contamination of underground water, use of the site for disposing toxic waste was officially stopped in 1975. From 1976 through 1982, when interim cleanup work was completed, the State Water Resources Control Board (state board) and the Santa Ana Regional Water Quality Control Board (regional board) let contracts totalling approximately $4.5 million for cleanup of the Stringfellow toxic waste disposal site. The Department of Health Services (department) also let contracts for work at the site.

In this report, we discussed information pertaining to the letting of the contracts for the cleanup of the Stringfellow site, the contractors' compliance with the contracts, and the effectiveness of the interim cleanup. We also made recommendations for future selection of contractors and discussed federal reimbursement to cover costs of the cleanup.

Letting of Contracts--We reviewed 17 of the 27 contracts let by the two boards and found that in letting 14 of the 17 contracts, the boards did not comply with the competitive bidding procedures specified in the State Contract Act and the State Administrative Manual. However, because of the emergency nature of the problems and to expedite the cleanup, the Legislature had enacted legislation (Chapter 315, Statutes of 1979) that exempted these boards and state agencies from the requirements for competitive bidding when letting contracts for work at the Stringfellow site. The department was also exempt from these requirements until January 1, 1983, when it became responsible for the Stringfellow site. After January, the department was exempt from these requirements only in emergency situations. We reviewed three contracts let by the department; two of these were let prior to 1983. The department complied with the State's competitive bidding requirements in all three contracts.

Contractor Compliance--Three of the four major contractors involved in the cleanup of the Stringfellow site did not comply with some of the provisions in their contracts. We could not determine whether the fourth contractor complied with contract provisions. In several instances, we could not determine whether the contractors had complied with the contracts because the provisions of the contracts were vague, because the work performed resulted in temporary structures that no longer exist, or because determining compliance would have been costly

and would duplicate work being done by the department. Instances of contractor noncompliance were not related to the procedures used by the boards and the department to let the contracts.

Effectiveness of Interim Cleanup--The U.S. Environmental Protection Agency (EPA) hired two engineering consulting firms to assess the interim cleanup work performed at the Stringfellow site. The consultants reported that the cleanup work was effective as an interim solution to the problem of containing the toxic waste. In addition, the department had issued a Request for Proposal for a study to determine what additional work needs to be done to close the site permanently. This study should be completed by March 1985. Because of the EPA consultants' assessments and the department's study, we performed no independent work to determine the effectiveness of the interim cleanup work at the Stringfellow site.

Future Selection of Contractors--Future selection and effectiveness of contractors for cleanup work at the Stringfellow site could be improved if the responsible agencies let contracts in accordance with the State Contract Act and the State Administrative Manual. The State established these laws and regulations to ensure that public agencies let contracts to qualified contractors at the lowest possible cost to the State. Agencies that contract for future work at the Stringfellow site should not be given an unqualified exemption from these laws and regulations. In letting contracts, agencies should follow procedures that meet the intent of provisions in the State Contract Act and the State Administrative Manual. Also, review of construction contracts and construction management practices by public agencies or personnel experienced in public works projects would ensure greater contractor effectiveness. Additionally, agencies responsible for the cleanup work should streamline contract processing to minimize delays.

Federal Funds for the Cleanup--On June 2, 1982, the department applied to the EPA for a cooperative agreement, requesting approximately $6.2 million to pay for past and future cleanup of the Stringfellow toxic waste disposal site. In August 1982, the EPA suspended processing the application in order to have parties responsible for the site pay for the cleanup. On June 10, 1983, the department submitted an amended application for a cooperative agreement, requesting approximately $12.0 million ($4.3 million for past cleanup work and $7.7 million for future work).

On July 28, 1983, the EPA approved approximately $4.2 million to pay for past cleanup work and approximately $5.8 million to fund future cleanup work. However, the EPA actually granted only approximately $2.8 million and restricted this grant to pay for future cleanup work. Additional reimbursement for cleanup work will depend on future EPA appropriations. The department accepted the $2.8 million grant and asked the EPA to grant the additional $7.2 million.

Follow-Up Information (Report 244.1)

On June 4, 1984, we presented the results of an additional review of a contract award at the Stringfellow Toxic Waste Disposal Site. During the review, we found that the Department of Health Services did not follow all the contractor selection procedures in its Request for Proposal and that the department's selection procedures did not ensure that the department treated all prospective contractors fairly. However, the department did establish and follow reasonable procedures to select the five most technically qualified prospective contractors. We determined that the State should proceed with the contractor it selected from these five prospective contractors since repeating the Request for Proposal process would be costly and since the bids from the five prospective contractors were below the $1.7 million budgeted for the contract. We also recommended changes in the department's contractor selection procedures.

THE STATE'S HAZARDOUS WASTE MANAGEMENT PROGRAM: SOME IMPROVEMENT, BUT MORE NEEDS TO BE DONE

Summary of Findings

In October 1981, the Auditor General issued a report entitled "California's Hazardous Waste Management Program Does Not Fully Protect the Public from the Harmful Effects of Hazardous Waste." Between October 1981 and December 1982, the Department of Health Services (department) made limited progress in improving the State's hazardous waste management program. Since January 1983, the department has taken actions to improve the program; however, the State's hazardous waste management program still does not adequately protect the public and environment from the harmful effects of hazardous waste. In addition, the department has not spent all Superfund program monies available for cleanup of hazardous waste sites and for other activities covered by the Superfund program.

Between October 1981 and September 30, 1983, the department issued only 45 permits to hazardous waste facilities. Thirty-nine of these permits were issued between July 1 and September 30, 1983. The department estimates that from 600 to 1,100 facilities still operate without permits. Further, the department was in jeopardy of losing up to $475,000 in federal funds unless it could prove to the U.S. Environmental Protection Agency that it had assigned sufficient staff to its permit program.

The low number of permits issued reflects the low priority that the department has given to this activity. However, in January 1983, the department assigned 19 staff to work full time on permits; later the department developed a comprehensive workplan, written procedures, work standards, and a permit tracking system to improve its performance in issuing permits. As a result, the department issued 44 permits in federal fiscal year 1982-83, compared to one permit in federal fiscal year 1981-82. The 1983-84 workplan of the department's Toxic Substances Control Division stated that the department would issue 95 permits. Nonetheless, if the department were to issue 95 permits each year, it would take more than six years to issue permits to all remaining sites.

During federal fiscal year 1982-83, the department inspected over 800 facilities that generate, store, treat, or dispose of hazardous waste. However, it still does not effectively follow up to ensure that violations of hazardous waste control laws are corrected. At the time of our review, department records showed that it had not followed up on violations at over 170 facilities. In addition, the department applied few sanctions against violators of hazardous waste control laws; between October 1981 and September 15, 1983, only three fines totaling $155,000 and one jail sentence had been ordered as a result of

enforcement actions involving the department. Because the department has applied few sanctions against violators of hazardous waste control laws and has not held public hearings to order corrective action or to revoke or suspend registrations or permits, the department is not adequately deterring violators of hazardous waste laws. Effective September 1, 1983, the department initiated a new policy and procedures to pursue violators of hazardous waste control laws more aggressively.

Although the California Highway Patrol has inspected waste haulers for compliance with state and federal standards to ensure that waste is transported in safe vehicles, at the time of our review, the department still had not developed its own standards for containers used to haul hazardous waste and standards for driver training to ensure that hazardous waste is transported in safe vehicles by properly trained drivers. Furthermore, the department's automated manifest system for tracking shipments of hazardous waste has not worked effectively; problems with the department's computer have prevented the department from adequately tracking shipments of hazardous waste. Consequently, the department cannot ensure that waste is being discharged at a proper destination.

In state fiscal year 1982-83, the department spent $6.28 million in Superfund program monies to clean up hazardous waste sites, to assist local governments in cleaning up releases of hazardous material, to study the effects of exposure to hazardous material, and to fund other services provided by the Superfund program. In six of seven expenditure categories, however, the department did not spend the full amount of its budget allocations. While the department had $4.53 million available for cleanup contracts at hazardous waste sites, the department spent only $1.58 million for these contracts. In total, the department did not spend $3.17 million of the available Superfund program funds. The department reported that problems in hiring staff and delays in securing federal funds prevented the department from letting some contracts to clean up hazardous waste sites. Weaknesses in the department's plans to allocate monies to clean up sites also contributed to the department's inability to spend all available monies for cleanup of hazardous waste sites.

## Recommendations

The Department of Health Services has recognized many of the problems described in the report. In some cases, it had already initiated corrective action. However, the department needed to make further improvements to correct the program deficiencies we documented. To strengthen the control and management of hazardous waste, the department should continue its efforts to develop specific goals and objectives for issuing permits to hazardous waste facilities, for enforcing hazardous waste control laws, and for controlling the transportation of hazardous waste. Additionally, the department should

develop specific procedures to guide staff in conducting inspections to identify violations of hazardous waste control laws and to follow up to ensure that these violations of hazardous waste control laws are corrected. The department should take steps to ensure that regional offices comply with new procedures for applying sanctions to violators of hazardous waste control laws and should develop workload standards for each program activity so that it can establish staffing levels and justify staffing requests. The department should also improve its use of its automated management information system, continue to make improvements to the manifest system to ensure that the system effectively monitors the shipment of hazardous waste, and develop standards for containers used to haul hazardous waste and for training drivers of vehicles that transport hazardous waste.

The Legislature has required the department to submit a quarterly report to the Legislature showing the department's progress in meeting the program objectives in its 1983-84 workplan. To ensure prompt implementation of the Auditor General's recommendations, the Legislature should continue to require the department to report quarterly its progress in issuing permits, enforcing hazardous waste control laws, and controlling transportation of hazardous waste. Quarterly reporting should continue until the Legislature determines it is no longer necessary.

Finally, to ensure that the department uses all available Superfund program monies to clean up hazardous waste sites, the department should allocate to individual hazardous waste sites all funds available for cleanup contracts.

Follow-Up Information (Report 343.1)

On January 23, 1984, we provided follow-up information on contracts let by the Department of Health Services using Superfund program monies. We discussed the number of contracts let, the contract review process within the department, the contract review process of other agencies, and the amount of time that these reviews take. We also identified problems in the department's contracting process. We recommended that the department develop and maintain a contracting procedures manual for Superfund program contracts, continue to identify steps in the contracting process that can be performed concurrently or that can be eliminated, and accelerate the contracting process by giving Superfund program contracts priority during departmental reviews. We also recommended that the department develop and implement an effective system for monitoring and scheduling Superfund program contracts, and in letting contracts, follow procedures that meet the intent of provisions of the State Contract Act and the State Administrative Manual.

## THE STATE OF CALIFORNIA SHOULD DO MORE TO REDUCE AND PREVENT CONTAMINATION OF WATER SUPPLIES

### Summary of Findings

The State of California is not protecting all of its waters from contamination. The State Water Resources Control Board (state board) and the regional water quality control boards (regional boards) are responsible for regulating those discharging wastes that affect the quality of state waters. The 1984-85 Governor's Budget estimates that the state and regional boards will spend $20.2 million in fiscal year 1983-84 and $23.2 million in fiscal year 1984-85 to regulate waste dischargers.

In April 1979, the Auditor General issued a report entitled "State Water Resources Control Board and Regional Water Quality Control Boards: Need for Uniform Regulatory Policies and Procedures." The report was critical of the procedures used by state and regional boards to regulate waste dischargers. Since 1979, there has been little improvement in the regulation of waste dischargers. The state board and the regional boards still do not have an effective regulatory program either to identify waste dischargers that violate standards or to ensure that violations are corrected. Additionally, because of delays in establishing an interagency agreement between the state board and the Department of Health Services, the regional boards have not evaluated hazardous waste disposal facilities for conformance with federal requirements for groundwater protection.

Continuing reports of water contamination throughout the State show the need for a consistent and effective regulatory program. Contamination at four locations has already affected the groundwater used for drinking by the neighboring communities. Experts estimate that cleaning up the water contamination at these locations will cost hundreds of millions of dollars, and in at least one case, experts are uncertain whether it is technically possible to clean up the water contamination.

Since 1979, the state board has adopted regulations that require the regional boards to review waste discharge requirements and to inspect each waste discharger at least once every five years. However, there has been little overall improvement in the regulatory program. Regional boards still do not have adequate procedures or sufficient management information to regulate waste dischargers effectively. Consequently, waste dischargers submit self-monitoring reports irregularly, and there is little evidence that the regional boards ever resolve violations reported on these self-monitoring reports. In 42 of the 75 cases we reviewed that required self-monitoring, the discharger did not submit self-monitoring reports when they were due. Furthermore, the regional boards conducted inspections on an irregular

and often infrequent basis. Of the 98 cases we reviewed, 15 dischargers had not been inspected in over five years, and 6 had not been inspected in over ten years. In some cases, there was no evidence that the regional board followed up to ensure that the discharger corrected violations discovered during inspections.

Moreover, regional boards do not have systematic procedures to identify and revise outdated waste discharge requirements. Regional boards estimate that up to 50 percent of their waste discharge requirements are outdated. Consequently, these waste discharge requirements may not reflect current water quality plans or standards. Also, the regional boards have inconsistent policies regarding the fees charged to waste dischargers, and the regional boards do not always charge fees when they could, thereby forgoing state revenues. Fees for waste discharge requirements range from $25 to $10,000.

The state board and the Department of Health Services (department) are responsible, under separate authority, for protecting groundwater from contamination by hazardous waste. Under state law, the state board and the regional boards are responsible for issuing waste discharge requirements to any waste discharger that may affect the quality of state waters; these dischargers include hazardous waste disposal facilities. Additionally, in 1981, the U.S. Environmental Protection Agency (EPA) delegated to the state board and the department responsibility for regulating the handling of hazardous waste. The EPA designated the department to receive federal funds and to account for the results of the program.

The state board and the department have not fully carried out their responsibilities in regulating the approximately 128 hazardous waste disposal facilities that the department identified. In particular, the regional boards have issued waste discharge requirements to only 78 of the 128 hazardous waste disposal facilities. Some of these waste discharge requirements do not regulate the facility's disposal operation, and others do not include adequate measures to protect underlying groundwater. While officials of the regional boards state that they do not have enough staff to regulate hazardous waste disposal facilities, we also noted that the state board has not actively directed that waste discharge requirements be issued to these facilities.

Furthermore, because of delays in delineating responsibilities and in apportioning federal funds between the state board and the department, the regional boards had less than four months to implement the 1982-83 interagency agreement that required the regional boards to evaluate the 128 facilities for conformance with federal requirements for groundwater protection. As of February 1984, the regional boards had not submitted any evaluations of the 128 facilities. The department is

ultimately responsible to the EPA for evaluating facilities' conformance with the federal requirements; this responsibility includes inspecting facilities. During the 1982-83 federal fiscal year, the department inspected only 69 of the 128 facilities.

Recommendations

The State Water Resources Control Board should adopt specific procedures to improve the regulation of waste dischargers. Furthermore, the state board should monitor the regional boards' regulatory activities and make the regional boards accountable to the state board.

To increase funding for additional staff at the regional boards, the Legislature should establish an expiration date for all waste discharge requirements. Dischargers would then have to submit new applications and filing fees to renew their waste discharge requirements. The Legislature should also consider making the regional boards supported primarily by fees paid by waste dischargers. The Legislature should also use budget control language to make appropriations for the state and regional boards contingent upon their progress in improving the regulation of waste dischargers.

Finally, if the Secretary of the Environmental Affairs Agency is dissatisfied with the progress of the state and regional boards in improving the regulation of waste dischargers, the secretary should request the Legislature to restructure the legal and organizational relationship of the state and regional boards. This restructuring could improve the regulatory program since state board officials say that the regional boards' semiautonomous status makes it difficult to require the regional boards to adhere to uniform procedures.

## PRE-ADMISSION SCREENING REDUCES THE COST OF PROVIDING LONG-TERM CARE TO ELDERLY MEDI-CAL BENEFICIARIES AND PROMOTES INDEPENDENT LIVING

### Summary of Findings

The Department of Health Services (department) could reduce the cost of long-term care for elderly Medi-Cal beneficiaries by implementing pre-admission screening of requests for admission to nursing homes. Pre-admission screening, a procedure for evaluating admissions to nursing homes while beneficiaries are still living in the community, emphasizes providing long-term care in a community setting. Although the Legislature has emphasized reducing the use of inappropriate nursing home care, the department currently uses pre-admission screening in only 2 of its 12 Medi-Cal field offices. We estimated that the San Jose field office alone could have saved the State $113,000 during fiscal year 1982-83 if that office had conducted pre-admission screening of all requests for nursing home care from beneficiaries in the community.

Pre-admission screening has several advantages over the post-admission review process currently used by the department. First, pre-admission screening affords more opportunity than that provided by post-admission review for keeping elderly Medi-Cal beneficiaries out of nursing homes. Second, pre-admission screening, as implemented in other states, uses multidisciplinary teams, including medical personnel and social workers, who conduct comprehensive assessments of a beneficiary's physical, psychological, and social condition. These teams develop care plans that emphasize the use of community-based long-term care services. Third, community-based services are also typically less expensive than nursing home care.

Since January 1982, the San Jose Medi-Cal field office has used pre-admission screening of requests to enter nursing homes; these requests were voluntarily referred to the office by the homes. During fiscal year 1982-83, the San Jose field office diverted to community-based long-term care services 58 (21.2 percent) of the 273 beneficiaries screened. The beneficiaries diverted were all eligible for nursing home care. We estimated that the net public assistance savings for 37 of these beneficiaries for whom we could compare costs was $73,000 during fiscal year 1982-83, with the State's share $45,500. We also estimated that if the San Jose field office had used pre-admission screening of all requests for admission to nursing homes from beneficiaries living in the community, this office alone could have saved the State approximately $113,000 in fiscal year 1982-83.

The chief of the department's Field Services Branch, which operates the State's Medi-Cal field offices, presented several reasons for not implementing pre-admission screening in all field offices. We evaluated all of the reasons. Based on our reviews of records and on

visits to all Medi-Cal offices throughout the State, we concluded that, although some of the problems cited by the Field Services Branch may limit the effectiveness of pre-admission screening in some offices, the problems do not preclude testing the program in all offices.

Recommendations

The Department of Health Services should require each Medi-Cal field office to implement pre-admission screening of all requests for nursing home care received from beneficiaries residing in the community. The department should also require that nursing homes refer to the Medi-Cal field offices all admission requests from these Medi-Cal beneficiaries. After one year, the department should evaluate pre-admission screening in each field office and retain the program in offices where it is cost-effective. The department should request more staff only for offices that prove they cannot implement pre-admission screening with current staff. Finally, field office staff should document cases in which lack of community-based long-term care services requires placing beneficiaries at a higher level of care than is appropriate. The department should report the shortage of community-based long-term care services in the State to the entity to be designated by the Legislature as responsible for planning community-based long-term care.

REVIEW OF THE DEPARTMENT OF HEALTH SERVICES' X-RAY REQUIREMENTS FOR THE DENTI-CAL PROGRAM

Summary of Findings

After the Department of Health Services (department) implemented controls to improve its administration of the Denti-Cal program, the rate at which the California Dental Service (CDS) paid claims erroneously declined considerably. In the last quarter of 1982, department auditors determined that 9.7 percent of the payments approved by the CDS were erroneous. One year later, the CDS had reduced this error rate to 4.4 percent. Moreover, the percent of dental procedures for which the CDS denied payment increased to 8.3 percent of the total procedures billed in 1983, up from 3.8 percent in 1981. Our review of a sample of dental procedures for which the CDS denied payment in 1983 found that the CDS denied payment for 42 percent of those procedures for reasons that relate to X-ray documentation.

Dental care providers we interviewed said that the documentation requirements of the Denti-Cal program, particularly the requirements for X-rays, are excessive. Conversely, the department maintains that its requirements for X-rays are equivalent to standards emphasized in dental schools and in the California Dental Association handbook Quality Evaluation for Dental Care. In April 1984, the department notified the CDS in writing of its relaxed X-ray requirements for restorations; in May 1984, the department informed the CDS of its modified X-ray requirements for extractions.

The Auditor General's report also responded to the Legislature's request for information on changes in the number of Denti-Cal providers in recent years and on the number of X-rays required to justify payment for dental procedures funded by Denti-Cal.

During fiscal year 1982-83, the department paid $144.9 million to the CDS for Denti-Cal services. Of this total, $134.3 million represented payments to providers. The remaining $10.6 million represented reimbursements to the CDS for the administrative costs associated with processing claims. The federal government reimbursed the State $75.1 million for the program.

## THE WORKERS' COMPENSATION APPEALS BOARD HAS REDUCED THE LENGTH OF THE ADJUDICATION PROCESS BUT DOES NOT COMPLY WITH STATUTORY MANDATES

### Summary of Findings

The Workers' Compensation Appeals Board (WCAB) is part of the Department of Industrial Relations' Division of Industrial Accidents (division). The WCAB has 22 district offices throughout the State. Since we last reviewed the WCAB in 1982, the length of the adjudication process decreased from 12 months to 6.6 months for the cases that we reviewed. Although the length of the adjudication process decreased, WCAB district offices were still not holding workers' compensation hearings promptly at the time of our report.

The Labor Code requires that workers' compensation hearings be held within 30 days after they have been requested. In the four district offices that we visited, 96 percent of the conference hearings and 99 percent of the regular hearings were not held within 30 days. The average length of delay beyond 30 days for conference hearings was 1.2 months and for regular hearings, 1.3 months. The delays result in part from the division's failure to implement a standard for the number of hours that workers' compensation judges should be in hearings each week. During our previous review, the administrative director of the division and the chairman of the WCAB stated that a reasonable standard for workers' compensation judges to be in hearings is 24 hours per week. Nevertheless, the division had not implemented this standard. For the WCAB district offices that we visited, the average number of hours that judges were scheduled in hearings ranged from 15.9 to 17.6 hours in one office to 23.6 to 24.8 hours in another office.

Twenty-six percent of hearings in our sample did not take place as scheduled because parties failed to appear at the hearings, because parties did not have necessary medical evidence, or because parties cancelled the hearings at the last minute. Some district offices counteract the effect of last-minute cancellations by overbooking their hearing calendars.

A hearing not held as scheduled prolongs the adjudication process by requiring continuance, that is, the scheduling of another hearing on the case. The minutes of many hearings were too brief to permit us to evaluate the need for the continuances. The WCAB's Rules of Practice and Procedure and its Policy and Procedural Manual specify the information that should be included in hearing minutes. Fifty-one percent of the minutes for hearings that led to continuances did not comply with the WCAB's requirements.

Recommendations

The Division of Industrial Accidents should adopt a workload standard that requires workers' compensation judges to be scheduled in hearings 24 hours per week. The division should also amend the Policy and Procedural Manual to instruct presiding judges and calendar clerks to overbook their hearing calendars to compensate for last-minute cancellations. The division should monitor the district offices' hearing calendars to ensure that these recommendations are implemented. To avoid last-minute cancellations, the division should ensure that presiding judges are adequately screening requests for hearings. Finally, presiding judges should review the minutes of hearings prepared by workers' compensation judges to ensure that the minutes are complete and that any continuance orders specify the reason for the continuance.

REVIEW OF THE STATE LANDS COMMISSION'S MANAGEMENT OF STATE LAND

Summary of Findings

Our review of the State Lands Commission (commission) indicated that the commission has effectively managed the state land under its jurisdiction. This land includes the beds of navigable rivers and lakes, submerged land along the State's coast, and school land granted to the State for the support of public education. In fiscal year 1982-83, the commission collected revenues from these lands totaling approximately $464 million. However, the State has not derived as much revenue as possible from all of the leases of state land. The commission has not sold the oil that the State received as a royalty from one oil lease, and it has not promptly reviewed rents on some leases.

The State receives royalties for the oil produced on state land leased to oil companies. The commission can elect to receive these royalties either in cash or in crude oil. When the commission receives royalties in cash, it receives the current price for the oil. However, when the commission takes the royalty in oil ("royalty oil"), the commission can sell the oil and receive the current price plus a bonus for each barrel. The commission's policy has been to sell the State's royalty oil to the highest bidder. However, on one lease, the commission and the lessee have disagreed for several years about the correct method of calculating royalties, and a portion of the royalty oil produced on the lease had been in dispute. Nevertheless, the commission could have sold the undisputed portion of the oil and the State could have earned at least $340,000 in bonus revenues.

In addition, the State may not have derived as much revenue as possible from other leases of state land. For example, most commercial and some recreational leases managed by the commission allow the commission to increase the rent every five years. However, because the commission failed to properly notify the lessees of the dates when new rents were to become effective, the commission could not increase rents for at least eight leases on the fifth anniversary of those leases. As a result, the State lost at least $15,450 between 1981 and 1983.

Despite the shortcomings discussed above, the commission has increased revenues from the State's school land from approximately $126,000 in fiscal year 1975-76 to approximately $8 million in fiscal year 1982-83. However, federal encumbrances, unresolved legal problems, and environmental restrictions limit the commission's control of unsold school land. The commission is actively pursuing policies that would provide for more effective management of unsold school land, thus producing the highest economic return to the State.

Recommendations

The State Lands Commission should attempt to sell all of the royalty oil produced from its leases when doing so is in the best interest of the State. Furthermore, the commission should develop procedures to ensure that it offers royalty oil for sale even if disputes about royalties arise.

The commission should also establish a systematic rent review process. The commission should include provisions for supervisory review during the rent review process to see that staff meet the specific deadlines stated in each lease agreement. In addition, the commission should include time standards for completing each step in the rent review process.

## THE TRANSFER OF THE ADMINISTRATION OF THE VETERANS PREFERENCE PROGRAM HAS BEEN COST EFFECTIVE

### Summary of Findings

In July 1982, the Legislature transferred the responsibility for the veterans preference program from the Department of Veterans Affairs (department) to the State Personnel Board (board) to save state money. We compared each agency's administration of this program and found that, while both administered the program adequately, the board has administered the program at a lower cost. We estimated that the board spent $35,800 less than the department to administer the program for the period of our review.

The veterans preference program was established to enhance veterans' chances of obtaining entry-level civil service jobs. Administering the veterans preference program involves verifying the eligibility of veterans for preference points and adding the extra points to veterans' examination scores.

In administering the program, the board uses essentially the same procedures that the department developed and used. We did not find any difference in the adequacy of the agencies' administration of the program. However, we did find that the board processed more applications and reviewed more names on examination lists with fewer staff members and at a lower cost.

## REVIEW OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION'S ADMINISTRATION OF UTILITY MANAGEMENT AUDITS

### Summary of Findings

The California Public Utilities Commission (commission) needs to improve its administration of management audits of utilities. Our review disclosed that only one of the five management audits that the commission has ordered or proposed since 1978 had been completed. In addition, the commission has not always required management consultants to quantify the costs and benefits of their audit recommendations. Only 12 of 131 recommendations in the one audit completed include estimates of costs and benefits that could result from implementing the recommendations.

Moreover, the commission has not always used adequate procedures to evaluate objectively potential consultants for management audits, nor did the commission have clear standards for determining conflict of interest. Because the commission had not established its conflict of interest standards for management consultants, one management audit was suspended, and public confidence in the management audits may have been diminished.

### Recommendations

The California Public Utilities Commission should provide direction to commission staff when ordering management audits, specifying when audits are to be initiated and completed and what the audit reports must contain to meet the commission's needs. The commission should also use its budgeted management audit supervisor position for its designated purpose of supervising management audits, and it should ensure that requests for proposals and contracts for management audits require management consultants to quantify the costs and benefits of their recommendations.

The commission should apply and consistently use objective evaluation procedures to select management consulting firms for management audits and maintain a record of this process that the public can inspect. Finally, the commission should establish and use a standard for determining conflict of interest and consistently apply this standard when evaluating potential management consultants.

## COUNTIES SPEND ADDITIONAL TIME PREPARING FOR JUVENILE COURT HEARINGS AND DO NOT PROVIDE ALL CHILD WELFARE SERVICES REQUIRED BY STATE LAW

### Summary of Findings

Chapter 978, Statutes of 1982 (Senate Bill 14), added new sections to the Welfare and Institutions Code and changed the court process that counties follow when administering child welfare programs. Senate Bill 14 requires juvenile courts to review child welfare cases at least once every 6 months instead of at least once every 12 months. In addition, for families involved in foster care, Senate Bill 14 requires courts to resolve cases within 18 months by establishing permanent plans for minors. Senate Bill 14 also shifted the burden of proof from parents to counties; courts must return minors to their parents unless the counties establish that returning the minors would substantially threaten the safety of the minors. Finally, Senate Bill 14 requires counties to provide to families certain services, including counseling, training, transportation, and emergency shelter. In addition, regulations of the Department of Social Services (department) require caseworkers to make regular visits to minors and families.

As a result of the changes that Senate Bill 14 made to the court process, most counties have spent additional time preparing for juvenile court hearings. Counties that responded to our questionnaire were spending varied amounts of time, up to 54 additional hours per case, gathering evidence and preparing reports for court hearings.

County officials told us that their current staffs could not prepare for the required hearings and provide all the mandated services. We asked counties if they were providing all services required by Senate Bill 14. Fifty-six percent of the 43 counties that responded to this question did not provide all the required services. In addition, we asked counties if they were limiting the services that they do provide; 60 percent of the 52 respondents to this question stated that they were limiting the extent of services they provide. A compliance review by the department found that county caseworkers were making approximately one-half of the visits required. Department officials believe, however, that the problems experienced by the counties will decrease as the counties fully implement Senate Bill 14.

This report also provided information on the juvenile court process for reviewing child welfare cases, county suggestions for permanent placement of minors, court and county responses to changes resulting from Senate Bill 14, additional time juvenile courts spend hearing child welfare cases, and county funding for child welfare services.

## COMPUTER MATCHING FIRST NAMES AND BIRTHDATES OF AFDC RECIPIENTS CAN HELP DETECT DOUBLE PAYMENT OF WELFARE BENEFITS

### Summary of Findings

Our application of the Birthdate Match computer programs to a list of 1.6 million recipients of Aid to Families with Dependent Children (AFDC) in California identified instances of inappropriate payments of AFDC and food stamp benefits that totaled at least $282,000 and as much as $436,000. Thirty-eight instances involved persons who were apparently receiving double AFDC payments based on fraudulent information; an additional 20 instances involved overlapping payments that occurred because counties did not follow proper procedures when AFDC recipients moved from one county to another. Counties did not know about more than half of the 58 instances of inappropriate payments that we identified.

The Birthdate Match computer programs detect double welfare payments by matching the first names and birthdates of two or more family members in one case with the first names and birthdates of two or more family members in another case. The Department of Social Services' (department) current detection system does not detect instances of duplicate eligibility if recipients use different social security numbers. The department estimates that adding the Birthdate Match computer programs to its system would cost $1,100; operating the programs would cost $900 per year. The department does not have specific procedures to review counties' compliance with intercounty transfer policies and procedures, even though approximately 26,000 AFDC cases were transferred from one county to another during fiscal year 1982-83.

### Recommendations

The Department of Social Services should add the Birthdate Match computer programs to its Integrated Earnings Clearance/Fraud Detection System and to the Medi-Cal Eligibility Data System if the Legislature authorizes the department to develop this system as a centralized file for all public assistance recipients and if the addition is cost effective. The department should evaluate the effectiveness of the Birthdate Match programs when the system for validating social security numbers becomes fully operational.

The department should alert counties that overlapping payments are occurring in the intercounty transfer process and request counties to assure full compliance with intercounty transfer procedures and to take action to recover overlapping payments that are detected. The department should also require its Review and Evaluation Branch to review county compliance with the intercounty transfer procedures and to establish a test to assess county welfare departments' compliance with the procedures.

THE SELECTION OF CHILD ABUSE AND NEGLECT PREVENTION PROJECTS MEETS STATE REQUIREMENTS, BUT THE DISTRIBUTION OF FUNDS TO MOST OF THOSE PROJECTS IS NOT PROMPT

Summary of Findings

In selecting contractors to provide services for the prevention of child abuse and neglect, the Department of Social Services (department) and the Office of Criminal Justice Planning (OCJP) complied with the applicable requirements set forth in Chapter 1398, Statutes of 1982 (Assembly Bill 1733), the State Administrative Manual, and the department's procedures. In addition, the department's process for reviewing and approving counties' selection of projects ensured that the counties observed established guidelines. However, the department did not promptly distribute Assembly Bill (AB) 1733 funds to most projects and counties providing child abuse and neglect prevention services. In contrast, the OCJP promptly disbursed funds to its projects for preventing sexual abuse and exploitation of children.

AB 1733 directed the department to fund projects that use innovative approaches to prevent child abuse and neglect. The legislation also gave counties the option to select local projects to provide services for the prevention of child abuse and neglect. Forty-seven counties chose to select their own local projects, and the department ensured that their project selection activities met the requirements of AB 1733 and the department's policies and procedures. The remaining 11 counties chose not to select their own projects, and the department, following the directions of AB 1733, contracted with local agencies to offer services in those counties.

The department used a competitive process for selecting projects that would test innovative approaches to prevent or reduce child abuse and neglect as well as the local projects for the 11 counties that chose not to contract for their own projects. For the 47 counties that chose to select their own projects, the department reviewed the Requests for Proposals (RFP) developed by the counties, the proposals selected by the counties, and the contracts between the counties and their selected projects. The department's review process determined that the RFPs and proposals for project selections in 40 of the 47 counties did not comply with state or legislative requirements. The department subsequently required those 40 counties to revise the RFPs, the projects' proposals, or the contracts.

The department's review and approval of the counties' project selection took an average of 7.5 months to complete. Contract officers from the department's Contracts Bureau told us that they could have reduced this time to 5 to 6 months if the bureau had received the additional staff it had requested to conduct the AB 1733 contract review and if the counties had been familiar with the department's contracting processes.

Although the department has ensured that the selection of projects meets established guidelines, the department has not promptly distributed AB 1733 funds to most of the projects that provide services to prevent child abuse and neglect. Seven directors for projects administered by the department told us that, as a result of the department's delay in distributing funds, they had to obtain loans to meet their monthly operating expenses. Furthermore, at least 26 of the 47 counties that selected their own projects had to use their own resources to support their projects.

The delays in the department's disbursement of funds occurred because the department had not assigned sufficient staff to process the projects' invoices. In addition, the department did not authorize the counties to claim reimbursements until the department reviewed and approved each county's contracts, even though the department had authorized the counties to proceed with their projects.

The department transferred to the OCJP $184,000 of funds designated for innovative projects; the OCJP used a competitive process to select four innovative projects designed to prevent sexual abuse and exploitation of children. Unlike the department, however, the OCJP promptly distributed AB 1733 funds to its projects.

Recommendation

The Department of Social Services should ensure that its accounting bureau assigns sufficient staff to process invoices promptly for all AB 1733 projects.

ATTORNEY FEES PAID OR COLLECTED BY STATE AND LOCAL AGENCIES, 1980-82

Summary of Findings

This report provided information concerning the total fees and hourly rates paid to private attorneys by state and local agencies and collected by state and local agencies during calendar years 1980, 1981, and 1982. State agencies may hire private attorneys when the Attorney General cannot provide the special support needed or when an agency that is exempt from using the Attorney General cannot provide the support with its own attorneys. A state agency must obtain the Attorney General's approval before hiring private attorneys unless that agency is exempt by law from using the Attorney General.

Of the 28 state agencies we surveyed, 19 reported hiring private attorneys during 1980, 1981, or 1982. These agencies paid private attorneys approximately $2.64 million in 1980, $2.67 million in 1981, and $3.57 million in 1982. Hourly rates for the attorneys varied from $23.75 per hour to $275 per hour. Six of the 16 local agencies we surveyed reported hiring private attorneys. Three of the six reported the amount of the fees paid. The Santa Clara County Counsel, the Santa Clara District Attorney, and the Los Angeles City Attorney paid to private attorneys a total of approximately $308,000 in 1980, $200,000 in 1981, and $527,000 in 1982. These three agencies paid hourly rates ranging from $25 to $200 per hour.

Section 1021.5 of the Code of Civil Procedure permits courts to require state and local agencies to pay private attorney fees when court rulings result in the enforcement of an important right affecting the public interest and in a significant benefit to the general public or a large class of persons. Five state agencies reported 17 cases in which the courts required the State to pay attorney fees during 1980, 1981, and 1982. These fees totaled $69,390, $34,753, and $34,437 in 1980, 1981, and 1982, respectively. In the majority of cases, the state agencies did not identify the hourly rate used to compute the attorney fees. In four cases, however, the agencies reported hourly rates of $52, $70, $75 to $100, and $100.

Three local agencies reported five cases in which the court awarded fees to private attorneys. These awards totaled $59,832, $6,000, and $91,864 in the three years covered by this report. The court-ordered rates reported by the three local agencies were $25 to $90 per hour, $65 to $90 per hour, $75 per hour, $80 per hour, and $100 per hour.

State and local agencies may also collect attorney fees in court actions such as cases involving consumer fraud, workers' compensation, and county enforcement of family support payments. Three state agencies and four local agencies reported cases in which they collected attorney fees. The state agencies reported collecting a total of

$56,884, $74,095, and $47,720 during 1980, 1981, and 1982, respectively. The local agencies reported collecting $63,220, $70,475, and $122,516 during the three years.

Agencies identified three methods that the courts used to determine the amount of fees to be collected. The courts determined the amount of fees based on the hourly rate of an agency's own attorneys, the hourly rate charged by any private attorneys in the cases, or a set fee for similar cases.

## THE SUPPLEMENTAL DISABILITY PAYMENTS PROGRAM SAVES MONEY BUT FEW COUNTY EMPLOYEES ARE PARTICIPATING

### Summary of Findings

Since January 1, 1981, the supplemental disability payments program has saved the Los Angeles County Employees Retirement Association (association) more than $25,000. Moreover, the association will save an additional $375,000 in disability funds during the working careers of the employees who are receiving supplemental disability payments. Other county retirement systems could achieve similar savings. Few disabled county employees throughout the State participate in the program, however.

The County Employees Retirement Law of 1937 authorizes counties to provide disability pensions to county employees who experience service-connected disabilities. Effective January 1, 1981, the Legislature authorized county retirement systems to pay supplemental disability payments in lieu of a disability pension to county employees with service-connected disabilities who accept lower-paying county positions. The supplemental disability payment is equal to the difference between the employee's new salary and the salary for the position the employee held before the disability.

The program enables disabled county employees who return to county employment to receive total compensation that exceeds the payments from a disability pension alone. Moreover, for the county retirement systems, monthly supplemental disability payments are less than payments of a disability pension. Disabled employees, however, are not required to accept county employment, and there is no restriction on the amount of additional noncounty income they may earn if they choose a disability pension instead of supplemental disability payments.

Paying supplemental disability payments in lieu of disability pensions saves money for county retirement systems. For example, between January 1, 1981, and June 30, 1983, the Los Angeles County Employees Retirement Association saved $25,700 by paying disabled Los Angeles County employees supplemental disability payments instead of disability pensions. If the employees receiving the supplemental disability payments remain in county service, the association would save an additional $375,000 over the working careers of these employees. This estimate is based on actuarial assumptions described in the report and excludes the costs of rehabilitation services, which are offered to disabled employees whether or not they return to county employment.

Although the supplemental disability payments program is cost effective, few disabled employees participate in the program. Between January 1, 1981, and June 30, 1983, 1,150 county employees incurred service-connected disabilities in the 20 counties that offer the

supplemental disability payments program. Only 20 of these disabled employees, however, have participated in the program. According to county retirement officials, employees with service-connected disabilities who are capable of performing other duties for the county have no financial incentive to return to county employment; the employees can work for a noncounty employer and receive both a noncounty salary and the disability pension. In most cases, the total compensation from the noncounty job and the disability pension is more than the employee can receive from the lower-paying county job and the supplemental disability payments.

In contrast to the County Employees Retirement Law of 1937, which does not restrict the amount of income a disabled employee may earn in addition to the disability pension, two state retirement systems may reduce the amount of the disability pension if the disabled employee is earning an income in addition to the pension. Both the Public Employees' Retirement System and the State Teachers' Retirement System have such restrictions on disability pensions.

The supplemental disability payments program was enacted by Chapter 720, Statutes of 1980, and is codified as Section 31725.6 of the California Government Code. This statute is scheduled to expire January 1, 1986.

Recommendations

The Legislature should amend the County Employees Retirement Law of 1937 to require county employees who incur service-connected disabilities and accept disability pensions to report to their retirement system any earnings from a noncounty employer. Further, the Legislature should adopt amendments that require reductions in disability pensions for county employees when their earnings from noncounty employers and the disability pension exceed the current salary for the position the employee held before the disability. These amendments should apply to county employees who incur service-connected disabilities after enactment of the amendments. Such changes may be subject to collective bargaining in those counties that negotiate disability pensions. Finally, because the supplemental disability payments program is cost beneficial, the Legislature should delete the expiration date of January 1, 1986, from Section 31725.6 of the California Government Code.

## A REVIEW OF THE STATE TEACHERS' RETIREMENT SYSTEM'S PAYMENT OF DEATH BENEFIT CLAIMS

### Summary of Findings

From May 1982 to the time of our audit, the State Teachers' Retirement System (STRS) experienced a growing backlog of death benefit claims. Because of delays in processing these claims, the STRS paid beneficiaries over $15,000 in interest penalties between February 1983 and July 1983. The backlog, which by April 22, 1983, had reached 937 claims, resulted when the STRS reorganized its operations to prepare for automating its processing of all benefits, including death benefit claims. To reduce the backlog, the STRS hired additional staff to process claims and by June 3, 1983, had reduced the backlog of death benefit claims to 306 claims. However, because the new staff were temporarily reassigned to process regular retirement claims of teachers retiring at the end of the school year, the backlog had increased to 642 claims by June 30, 1983. Although at the time of our audit the STRS was still experiencing a backlog, the STRS anticipated that the backlog would be reduced after July 8, 1983, when all of the new staff were returned to processing death benefit claims.

We also found other weaknesses in the STRS' processing of death benefit claims. Four of the 19 death benefit claims we examined contained errors, including miscalculation of interest penalties, payment of death benefits before the required documents were submitted, or delays in paying the death benefit. Furthermore, the STRS did not always stamp the date of receipt on incoming documents, a procedure essential for accurately computing interest penalties and for monitoring the efficiency of the benefit payment process. STRS officials stated that these weaknesses resulted from clerical oversight. Although the STRS' Quality Control Unit reviews cases for major errors, the STRS does not periodically sample case files to determine the accuracy of the benefit payment process.

### Recommendations

The State Teachers' Retirement System should report to the Office of the Auditor General on the status of the backlog of death benefit claims 60 days, 6 months, and one year from the date of this report. In addition, STRS supervisors should closely monitor the work of the clerical staff and should periodically sample case files, reviewing each file for indications of weaknesses in the system for processing death benefit claims.

## IMPLEMENTATION OF CALIFORNIA'S MOTORCYCLE SAFETY PROGRAM

### Summary of Findings

The Office of Traffic Safety (OTS) entered into two contracts with the Motorcycle Safety Foundation (MSF) to develop California's Motorcycle Safety Program and establish a continuing training program that would not require further federal or state funds. The OTS complied with federal and state requirements in letting a 1980 contract for $368,591 and a 1982 contract for $299,096. According to its records, the MSF met all primary objectives of the 1980 contract except the requirement to have 60 self-supporting training sites in operation by December 31, 1981. Not all of the 60 sites were self-supporting at the end of the first contract, and a second contract was required. The objectives of the 1982 contract were to continue assisting the training sites in becoming self-supporting and to train at least 7,500 students. The OTS extended the 1982 contract through 1983 at no additional cost to the State to further assist the sites in becoming self-supporting. At the time of the Auditor General's report, the OTS had not identified any instances in which the MSF failed to comply with the second contract, which expired December 31, 1983.

Although the OTS is required to monitor the progress and expenditures of a contractor and to assess the contractor's performance, the OTS has not verified the MSF's statistics on the number of training sites and the number of students trained. In addition, although the OTS reviewed the MSF's claims for reimbursement, the OTS did not verify the claims because the contractor's records are kept in Pennsylvania. Moreover, the OTS did not request an interim audit of the first contract as required by its Grant Program Manual. Although the OTS requested a final audit of the first contract and an interim audit of the second contract, the OTS did not receive these audits until 21 months after the first contract ended. Federal auditors who performed the audits, however, found that the MSF's claims were allowable.

Because of limited resources, the OTS does not intend to verify the overall program results to determine if the program will be self-sustaining and if the sites will train a significant number of students without federal or state support. In addition, the OTS does not plan to evaluate the effectiveness of the Motorcycle Safety Program in reducing motorcycle accidents and fatalities. The MSF, however, plans to evaluate the program in its final report to the OTS.

### Recommendations

The Office of Traffic Safety should evaluate the Motorcycle Safety Program by thoroughly reviewing the Motorcycle Safety Foundation's self-evaluation and by verifying the number of sites that are self-supporting and the number of students being trained.

## THE DEPARTMENT OF VETERANS AFFAIRS HAS NOT ADEQUATELY MONITORED THE GROWTH OF THE RESERVE FUND BALANCE

### Summary of Findings

The Department of Veterans Affairs (department) has not adequately monitored the growth of the reserve fund balance for the life and disability insurance provided under the California Veterans Home Protection Plan. From 1977 to 1983, the reserve fund balance grew from $57 million to $115 million. During 1983, the reserve fund was $50 million to $74 million larger than necessary. The department and the insurance companies could have reduced the premium rates charged to California veterans to decrease the size of the reserve fund earlier but did not do so until 1982.

The department contracted with two private insurance companies to provide life and disability insurance for California veterans. The department and the insurance companies agreed that the reserve fund balance was significantly higher than what was required to meet expected insurance commitments. The department's actuary estimated that the fund could be as low as $41 million, while an insurance company actuary estimated that the fund should be between $55 million and $65 million. Any amount over what is required to meet expected insurance commitments is considered excess reserve funds.

Because the department and the insurance companies could not agree on a method to stop the growth, they did not reduce total premium income until September 1982. As a result, California veterans were paying unnecessarily high premiums, thereby further increasing the size of the reserve fund balance. Moreover, the department paid the insurance companies more fees than necessary. If the premiums had been reduced by 50 percent in 1981, the department would have paid the insurance companies approximately $65,553 in premium profit charges rather than $131,106.

The department notified the insurance companies on August 22, 1983, that the contract would be terminated effective December 31, 1983. Department officials were to employ the competitive bidding process in procuring the next insurance contractor. As of October 14, 1983, the department and the Department of General Services had established dates for the following major milestones for procuring a new contractor: (1) release of the final bid specifications, November 4, 1983; (2) bid responses from potential contractors, November 28, 1983; (3) contract award, December 12, 1983; and (4) full operation of the next contractor, January 1, 1984.

The department intended to make significant changes in the new contract. Department representatives said that the new contract would require that assets of the reserve fund be maintained in a separate

account rather than commingled with the insurance company's investments, would require annual studies to review the adequacy of the reserve fund balance, and would require that the premiums be adjusted to keep the reserve fund balance at an appropriate level. In addition, the bid specifications would require that proposed expenses and profits be explicitly stated in the bid. The new contract would not authorize a premium profit charge. The department intended to enter into the new contract for a fixed number of years and would not allow penalties for contract termination.

Recommendations

Recent action by the Department of Veterans Affairs and recent legislation should alleviate many of the problems with the reserve fund balance. However, to ensure that similar problems do not occur in the future, the department should develop a program to routinely monitor the insurance companies' records. ensure that the insurance companies are providing the department with prompt and accurate reports, review the adequacy of the reserve fund balance quarterly, and adjust premiums promptly to reflect changes in the life and disability insurance program.

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